NEW ISSUE-Book Entry Only

Fitch: "AAA"
S&P: "AA+"
See "RATINGS" herein.

$52,955,000
SANTA CLARA VALLEY WATER DISTRICT
Refunding and Improvement Certificates of Participation, Series 2012A

Dated: Date of Delivery **Due: February 1, as shown below**

The proceeds of the 2012A Certificates together with certain other moneys will be used (a) to refinance the $52,360,000 outstanding principal amount of 2003A Certificates, (b) to finance the cost of certain flood control improvements, (c) to fund a reserve fund, and (d) to pay the costs of issuing the 2012A Certificates.

Interest represented by the 2012A Certificates is payable on each February 1 and August 1, commencing on February 1, 2013. The 2012A Certificates will be prepared as fully registered 2012A Certificates and, when delivered, will be registered in the name of CEDE & Co., as nominee of The Depository Trust Company, New York, New York. DTC will act as securities depository of the 2012A Certificates. Purchasers of beneficial interests will not receive certificates representing their interest in the 2012A Certificates. So long as CEDE & Co. is the registered owner of the 2012A Certificates, as nominee of DTC, references herein to the registered owners shall mean CEDE & Co., as aforesaid, and shall not mean the beneficial owners of the 2012A Certificates. Individual purchases of the 2012A Certificates will be made in book-entry form only in authorized denominations of $5,000 or any integral multiple thereof. Principal and interest are payable directly to DTC by U.S. Bank National Association, San Francisco, California, as Trustee. Upon receipt of payments of principal and interest, DTC is to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the 2012A Certificates.

The 2012A Certificates, together with the $13,310,000 aggregate outstanding principal amount of the 2004A Certificates, are payable from the 1994 Installment Payments. The obligation of the District to make the 1994 Installment Payments is payable from, and is secured by a pledge of and lien on, the District's Flood Control System Revenues. The 1994 Installment Payments are payable on a parity with $67,770,000 aggregate outstanding principal amount of the 1995 Installments Payments.

The obligation of the District to make the 1994 Installment Payments does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The 2012A Certificates are not subject to optional, mandatory or extraordinary prepayment prior to their stated maturities.

MATURITY SCHEDULE

Payment Date (February 1)	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*
2013	$5,990,000	3.00%	0.200%	80168FKX3
2014	3,995,000	4.00	0.260	80168FKY1
2015	4,145,000	5.00	0.380	80168FKZ8
2016	3,545,000	5.00	0.470	80168FLA2
2017	3,725,000	5.00	0.560	80168FLB0
2018	3,910,000	5.00	0.700	80168FLC8
2019	4,105,000	5.00	0.860	80168FLD6
2020	4,310,000	5.00	1.060	80168FLE4
2021	4,530,000	4.00	1.350	80168FLF1
2022	4,710,000	4.00	1.560	80168FLG9
2023	4,900,000	4.00	1.720	80168FLH7
2024	5,090,000	4.00	1.820	80168FLJ3

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the portion of each 1994 Installment Payment constituting interest is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each 1994 Installment Payment constituting interest (and original issue discount) is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences with respect to the 2012A Certificates.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The 2012A Certificates were sold by competitive bid on November 13, 2012 to J.P. Morgan Securities LLC. The 2012A Certificates are offered when, as and if executed and delivered to the Underwriter, subject to the approval as to the legality of certain matters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the District and the Corporation by District Counsel, Stan Yamamoto, Esq., and for the Trustee by its counsel. It is expected that the 2012A Certificates in book-entry form will be available for delivery through the facilities of DTC on or about November 20, 2012.

Dated: November 13, 2012

SANTA CLARA VALLEY WATER DISTRICT
5750 Almaden Expressway
San Jose, California 95118

BOARD OF DIRECTORS AND OFFICERS OF THE DISTRICT

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Stan Yamamoto, District Counsel
Najon Chu, Chief Financial Officer
Jesus Nava, Chief Administrative Officer
James M. Fiedler, Chief Operating Officer, Water Utility Enterprise
Norma Camacho, Chief Operating Officer, Watersheds
Michelle L. King, Clerk of the Board

SPECIAL COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
San Francisco, California

TRUSTEE

U.S. Bank National Association
San Francisco, California

FINANCIAL ADVISOR

Public Resources Advisory Group
Los Angeles, California

VERIFICATION AGENT

Causey Demgen & Moore Inc.
Denver, Colorado

No dealer, broker, salesperson or other person has been authorized by the Underwriter, the District, the Corporation or the Trustee to give any information to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2012A Certificates by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as a contract with the purchasers or any of the owners of 2012A Certificates. Any statement made in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, is intended solely as such and not as representations of fact. The information set forth herein has been furnished by the District, The Depository Trust Company, and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriter. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

In reliance upon exemptions contained in such acts, the 2012A Certificates have not been registered under the Securities Act of 1933, as amended, nor has the Trust Agreement been qualified under the Trust Indenture Act of 1939, as amended. The registration or qualification of the 2012A Certificates in accordance with applicable provisions of securities laws of any state in which the 2012A Certificates have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation. Neither those states nor any of their agencies have passed upon the merits of the 2012A Certificates or the accuracy or completeness of this Official Statement.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

> The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 2012A CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2012A CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District maintains a website, however, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2012A Certificates.

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TABLE OF CONTENTS

Page

INTRODUCTION 1

PLAN OF FINANCE 3
Flood Control Improvements 4

THE 2012A CERTIFICATES 5
General 5
No Prepayment 5

SECURITY AND SOURCES OF PAYMENT 5
Flood Control System Revenues 5
Pledge 7
Allocation of Flood Control System Revenues 7
Rate Covenant 8
Additional Parity Obligations 8
Subordinate Obligations 8
Debt Service Reserve Fund 9

ESTIMATED SOURCES AND USES OF FUNDS 9

INSTALLMENT PAYMENT SCHEDULE 10

THE DISTRICT 10
Organization, Purpose and Powers 10
Defined Benefit Pension Plan 14
Other Post-Employment Benefits 15
Other Benefits 17
Insurance 17
Budgeting Process 18
Debt Structure of the District 19
Ad Valorem Taxes 19
1% Property Tax Moneys 20
Clean Safe Creeks and Natural Flood Protection Initiative 21

FLOOD PROTECTION AND STREAM STEWARDSHIP 22
General 22
Flood Management Facilities 23
Future Capital Project Funding 23
Primary Sources of Flood Control System Revenues 23
Teeter Plan 27
Direct and Overlapping Debt 27

HISTORICAL OPERATING RESULTS 30

PROJECTED OPERATING RESULTS 31
Projected Operating Results 31

THE CORPORATION 32

CERTAIN LIMITATIONS ON TAXES 32
Article XIII A of the California Constitution 32
Article XIIIB 33

TABLE OF CONTENTS
(continued)

Page

Proposition 218 33
Future Initiatives 35

CERTAIN LIMITATIONS ON RIGHTS AND OBLIGATIONS 35

CONTINUING DISCLOSURE 35

TAX MATTERS 36

RATINGS 37

UNDERWRITING 37

FINANCIAL ADVISOR 37

NO LITIGATION 37

CERTAIN LEGAL MATTERS 38

MISCELLANEOUS 38

APPENDIX A AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS OF THE DISTRICT A-1

APPENDIX B SUMMARY OF PRINCIPAL LEGAL DOCUMENTS B-1

APPENDIX C BOOK-ENTRY SYSTEM C-1

APPENDIX D FORM OF SPECIAL COUNSEL OPINION D-1

APPENDIX E FORM OF CONTINUING DISCLOSURE AGREEMENT E-1

APPENDIX F ECONOMY OF SANTA CLARA COUNTY F-1

$52,955,000
Santa Clara Valley Water District
Refunding and Improvement Certificates of Participation
Series 2012A

INTRODUCTION

This Official Statement, including the cover page, inside cover page, and Appendices, is provided to furnish certain information in connection with the offering of $52,955,000 aggregate principal amount of Santa Clara Valley Water District Refunding and Improvement Certificates of Participation, Series 2012A (the "2012A Certificates"). The Santa Clara Valley Water District (the "District") is a multi-purpose special district authorized to supply water and provide flood protection services, organized and existing in accordance with the Santa Clara Valley Water District Act, Chapter 1405 of Statutes 1951 of the State of California, as amended.

The 2012A Certificates will be delivered pursuant to a Trust Agreement, dated as of November 1, 2012 (the "2012 Trust Agreement"), by and among the District, the Santa Clara Valley Water District Public Facilities Financing Corporation, a California non-profit public benefit corporation (the "Corporation") and U.S. Bank National Association, San Francisco, California, as trustee (the "2012 Trustee"). The 2012A Certificates represent a right to receive the installment payments (the "1994 Installment Payments") payable by the District under an Installment Purchase Agreement dated as of June 15, 1994, by and between the District and the Corporation, as amended by Amendment No. 1 to the Installment Purchase Agreement, dated as of November 1, 2002 (collectively, the "1994 Installment Purchase Agreement").

Pursuant to an Assignment Agreement, dated as of June 15, 1994, by and between the Corporation and the 2012 Trustee, as amended by Amendment No. 1 to the Assignment Agreement, dated as of November 1, 2002, by and between the Corporation and the 2012 Trustee, and by Amendment No. 2 to the Assignment Agreement, dated as of November 1, 2003, by and between the Corporation and the 2012 Trustee (collectively referred to as the "Assignment Agreement"), the Corporation assigned to the 2012 Trustee, for the benefit of the registered owners of the 2012A Certificates, all of its rights to receive the 1994 Installment Payments and certain other rights and interests of the Corporation in the 1994 Installment Purchase Agreement.

Purpose. The proceeds of the 2012A Certificates together with certain other moneys will be used (a) to refund the $52,360,000 aggregate principal amount of the Santa Clara Valley Water District Refunding and Improvement Certificates of Participation, Series 2003A (the "2003A Certificates"), (b) to finance and reimburse the cost of certain flood control improvements, (c) to fund a reserve fund, and (d) to pay the costs of issuing the 2012A Certificates, all as more particularly described under the captions "PLAN OF FINANCE" and "SECURITY AND SOURCES OF PAYMENT."

Security for the 1994 Installment Payments. The 1994 Installment Payments are payable from, and are secured by a pledge of and lien on, the District Flood Control System Revenues (as described under the caption "SECURITY AND SOURCES OF PAYMENT — Flood Control System Revenues"). A portion of the Flood Control System Revenues is comprised of Flood Control Benefit Assessments which the District is authorized to levy on any parcel of property within the District. The District has covenanted at all times to fix, prescribe and collect or lease to be collected Flood Control Benefit Assessments in an amount equal to 125 percent of the Maximum Annual Debt Service on the then outstanding 1994 Installment Payments, the 1995 Installment Payments, and any payments pursuant to any installment agreements which are on a parity therewith (the "Parity Obligations") (as described under the caption "SECURITY AND SOURCES OF PAYMENT — Rate Covenant"). The District's obligation to make the 1994 Installment Payments from Flood Control System Revenues is absolute and unconditional and the District has covenanted to continue such payments whether or not the 1994 Project is operating or operable. Such payments are not subject to annual appropriation or abatement in the event of loss or destruction of the 1994 Project. The District's obligation to

make the 1994 Installment Payments is payable from Flood Control System Revenues on a parity with the 1995 Installment Payments (as defined herein).

Outstanding Flood Control System Obligations. On June 23, 1994 the District adopted Resolution No. 94-60, entitled "A Resolution of the Board of Directors of the Santa Clara Valley Water District Providing for the Allocation of Flood Control System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Flood Control System Revenues" (the "Master Resolution"). Pursuant to the Master Resolution and resolutions of the District, the District approved the 1994 Installment Purchase Agreement. The 1994 Installment Payments secure the payments of principal and interest with respect to the $52,360,000 aggregate outstanding principal amount of Santa Clara Valley Water District Refunding and Improvement Certificates of Participation Series 2003A (the "2003A Certificates") and the $13,310,000 aggregate outstanding principal amount of Santa Clara Valley Water District Refunding and Improvement Certificates of Participation, Series 2004A (the "2004A Certificates"). The Outstanding 2003A Certificates are being prepaid from a portion of the proceeds of the 2012A Certificates. See the caption "PLAN OF FINANCE—General." The principal and interest with respect to the 2012A Certificates, together with the 2004A Certificates, will be being paid from the 1994 Installment Payments.

The 1994 Installment Payments are payable from and are secured by a pledge of and lien on, the District's Flood Control System Revenues on a parity with the 1995 Installment Purchase Agreement, dated as of June 27, 1995, by and between the District and the Corporation, as amended by Amendment No. 1 to the Installment Purchase Agreement, dated as of February 15, 2000 and as further amended by Amendment No. 2 to the Installment Purchase Agreement, dated November 1, 2005 (collectively, the "1995 Installment Purchase Agreement"). The 1995 Installment Payments secure the payments of principal and interest with respect to the $67,770,000 aggregate outstanding principal amount of Santa Clara Valley Water District Refunding and Improvement Certificates of Participation, Series 2007A (the "2007A Certificates").

Additional Debt Test. In addition to the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement, the Master Resolution provides for the issuance of additional bonds, contracts, other parity obligations and subordinate obligations upon satisfaction of certain conditions. See the caption "SECURITY AND SOURCES OF PAYMENT — Additional Parity Obligations" and in Appendix B — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — FLOOD CONTROL MASTER RESOLUTION-Additional Bonds and Contracts and Other Parity Obligations."

Debt Service Reserve Fund. Concurrently with the execution and delivery of the 2012A Certificates, the Trustee is to establish, maintain and hold in trust a Series 2012A Reserve Fund and the District will deposit therein $6,186,923.43 of the 2012A Certificate proceeds, an amount equal to the Series 2012A Reserve Fund Requirement. Moneys in the Series 2012A Reserve Fund will be used and withdrawn solely for the purpose of paying principal and interest evidenced by the Certificates in the event moneys in the Series 2012A Payment Fund are insufficient therefor and making the final payments of principal and interest evidenced by the 2012A Certificates. See the caption "SECURITY AND SOURCES OF PAYMENT — Debt Service Reserve Fund" herein.

Prepayment. The 2012A Certificates are not subject to optional, mandatory or extraordinary prepayment prior to their stated maturities.

Limited Obligations. The obligation of the District to make the 1994 Installment Payments described herein are payable from, and are secured by a pledge of and lien on, the District's Flood Control System Revenues. The obligation of the District to make 1994 Installment Payments does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Miscellaneous. Brief descriptions of the 2012A Certificates, the security and sources of payment for the 2012A Certificates and the District are provided herein. Such descriptions do not purport to be

comprehensive or definitive. Definition of certain capitalized terms used herein may be found in Appendix B — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS." All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the Clerk of the Board of the District (see address on the inside cover of this Official Statement).

Continuing Disclosure. The District has covenanted in a Continuing Disclosure Agreement for the benefit of the holders and beneficial owners of the 2012A Certificates to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2013, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix E — "FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The District has not defaulted on any continuing disclosure undertaking in the previous five years.

Forward-Looking Statements. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "FLOOD PROTECTION AND STREAM STEWARDSHIP," "SUMMARY OF MAJOR WATERSHED CAPITAL PROJECTS" and "PROJECTED OPERATING RESULTS" herein.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Changes to Official Statement. Changes have been made to this Official Statement since the Preliminary Official Statement dated November 6, 2012 to correct references to amendments to the 1994 Installment Purchase Agreement. See the caption "INTRODUCTION" as well as Appendix D – "FORM OF SPECIAL COUNSEL OPINION." In addition, changes were made under the caption "THE DISTRICT— Debt Structure of the District" to reflect the approval of the Safe Clean Water ballot measure on November 6, 2012. Additionally, changes were made to Appendix E – "FORM OF CONTINUING DISCLOSURE AGREEMENT," including referencing the basis for accounting used by the District.

PLAN OF FINANCE

General. The District will apply a portion of the proceeds of the 2012A Certificates, together with certain other moneys, to refund the $52,360,000 aggregate principal amount of 2003A Certificates remaining outstanding as of the date of execution and delivery of the 2012A Certificates.

To effect the refunding of the 2003A Certificates, such proceeds and other moneys will be set aside in an escrow account (the "2012 Escrow Fund") held and maintained by U.S. Bank National Association, as escrow agent for the 2003A Certificates (the "2012 Escrow Agent") under an Escrow Agreement, dated as of

November 1, 2012, by and between the 2012 Escrow Agent and the District (the "2012 Escrow Agreement"). Such proceeds will be held as cash or invested in certain direct United States governmental obligations or obligations the payment of principal of and interest on which is guaranteed by the United States government (the "Government Obligations"). The principal and interest with respect to the 2003A Certificates due on and prior to February 1, 2013 will be paid from the 2012 Escrow Fund as such amounts become due and the 2003A Certificates maturing on and after February 1, 2014 will be prepaid on February 1, 2013 at a prepayment price equal to 100% of the principal with respect to such 2003A Certificates.

The cash and Government Obligations deposited in the 2012 Escrow Fund, will be irrevocably pledged under the 2012 Escrow Agreement, to the payment of the principal and interest with respect to the 2003A Certificates and the prepayment price of the 2003A Certificates and will not be pledged or available to pay principal of and interest with respect to the 2012A Certificates. The Government Obligations, together with any earnings thereon, shall be sufficient to provide for the payment of principal and interest with respect to, and any redemption premium on the 2003A Certificates when due.

Verification Report. Upon delivery of the 2012A Certificates, Causey Demgen & Moore Inc., Denver, Colorado, independent certified public accountants, will deliver a report on the mathematical accuracy of certain computations based upon certain information provided to such firm by the underwriter listed on the cover of this Official Statement (the "Underwriter") relating to the adequacy of the amounts deposited in the 2012 Escrow Fund to pay the scheduled payments of interest with respect to the 2003A Certificates prior to their respective payment dates and to pay the respective prepayment prices on February 1, 2013 and the computation of yield of the 2012A Certificates as well as the Governmental Obligations which support Special Counsel's opinion that interest with respect to the 2012A Certificates received by the Owners is excluded from gross income for federal income tax purposes.

Flood Control Improvements

A portion of the proceeds of the 2012A Certificates will be used to finance and reimburse a portion of the costs previously incurred and to pay additional costs to be incurred by the District with respect to the Flood Control System. Such costs will include the following:

North Central Zone Project. Sunnyvale East Channel and West Channel Flood Protection Project which is part of the 2000 voter-approved Clean, Safe Creeks, and Natural Flood Protection Program (the "CSCNFPP"). The Sunnyvale East Channel extends approximately 6 miles and drains approximately 7.25 square miles of urban watershed located within the cities of Sunnyvale and Cupertino. The Sunnyvale West Channel extends approximately 3 miles and drains approximately 7.6 square miles of urban watershed located with cities of Sunnyvale, Mountain View, and unincorporated Santa Clara County. The completed project will provide 100-year flood protection to approximately 1,618 parcels within the watershed and protect approximately 47 acres of highly valuable industrial and government lands.

Central Zone Project. Upper Guadalupe River Flood Protection Project which is part of the CSCNFPP. This project is also a partnership project with the United States Army Corps of Engineers to plan, design, and construct improvements along approximately 5.5 miles of Guadalupe River from Highway 280 to Blossom Hill Road. When completed, the project will provide flood protection to about 6,900 homes, schools, and businesses. The District expects to use 2012A Certificate proceeds as a part of the local share of the project to facilitate construction of Reach 7 (between the Southern Pacific Railroad Bridge downstream of Willow Street and Union Pacific Railroad Bridge upstream of West Alma Avenue) and Reach 12 (from Branham Lane to Blossom Hill Road) while waiting for federal funds or other funding sources to complete construction of the remaining reaches.

East Zone Project. Upper Berryessa Creek Project: This project is a partnership project with the United States Army Corps of Engineers to plan, design, and construct improvements along approximately 2

miles of Berryessa Creek from Calaveras Boulevard to Interstate 680. When completed, the project will provide flood protection to about 2,000 homes and businesses.

THE 2012A CERTIFICATES

General

The 2012A Certificates will be executed and delivered in the aggregate principal amount of $52,955,000. One fully registered 2012A Certificate for each maturity in the name of CEDE & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of all 2012A Certificates will be delivered to DTC on the Delivery Date. The principal and interest with respect to the 2012A Certificates will be paid directly to CEDE & Co. by the Trustee as long as DTC or its nominee, CEDE & Co. is the registered owner of the 2012A Certificates. For information relating to DTC and the DTC book-entry system as it relates to the 2012A Certificates, see Appendix C — "BOOK-ENTRY SYSTEM."

The 2012A Certificates will be dated the date of delivery. Interest with respect to the 2012A Certificates will be payable at the rates set forth on the cover page of this Official Statement on each February 1 and August 1 commencing February 1, 2013. Principal with respect the 2012A Certificates will be payable on February 1 in each of the years, and in the amounts, set forth on the cover page of this Official Statement. Interest with respect to the 2012A Certificates will be calculated on the basis of a 360 day year consisting of 12 thirty day months.

No Prepayment

The 2012A Certificates are not subject to optional, mandatory or extraordinary prepayment prior to their stated maturities.

SECURITY AND SOURCES OF PAYMENT

Flood Control System Revenues

General. The Master Resolution provides for the allocation of Flood Control System Revenues (as defined below). Such provisions apply to the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement as well as to such other debts and obligations payable from Flood Control System Revenues as the District may issue or incur in the future, including without limitation revenue bonds, installment sale agreements, leases and contracts of indebtedness.

Under the Master Resolution, "Flood Control System Revenues" is defined to mean all gross income and revenue received or receivable by the District from its ownership or operation of the Flood Control System (described under the caption "FLOOD PROTECTION AND STREAM STEWARDSHIP") including, Flood Control Benefit Assessments, all Fees (as defined below) imposed in lieu of Flood Control Benefit Assessments, and all proceeds of taxes and certain investment earnings except (i) property taxes levied for the payment of debt service on its general obligation bonds, (ii) any future property taxes which pursuant to statute are to be applied to a specified purpose other than such future property taxes to be used for payment of debt service on Parity Obligations; and (iii) property taxes levied for payments on the District's contract to purchase water from the State Water Project (the "State Water Project Contract"). "Flood Control Benefit Assessments" is defined to mean the benefit assessments of the District established pursuant to Resolution No. 86-54 relating to the Northwest Flood Control Zone, Resolution No. 86-55 relating to the Central Flood Control Zone, Resolution No. 86-56 relating to the East Flood Control Zone, and Resolution No. 86-57 relating to the South Flood Control Zone, all as adopted on July 29, 1986 and as approved by the voters of the respective flood control zones on November 4, 1986, and Resolution No. 90-8 adopted on February 20, 1990, relating to the North Central Flood Control Zone, as approved by the voters of the North Central Flood Control Zone on June 5, 1990, and any other benefit assessment of the District established under the Benefit Assessment Act of

1982, as amended, or any similar law. "Fees" is defined in the Master Resolution to mean fees and charges imposed under the Revenue Bond Act of 1941, as amended, or any similar law which imposes a lien on property.

Benefit Assessments. Pursuant to the Benefit Assessment Act of 1982, as amended, being California Government Code Sections 54703, et seq. (the "Benefit Assessment Act"), the District was authorized to impose a benefit assessment on any parcel of property within the District to finance the costs of providing flood control services and facilities. The amount of the assessment imposed on any parcel of property is related to the benefit to the parcel which is derived from the provision of the service or facility and, in the case of a benefit assessment for flood control services, the benefit may be determined on the basis of the proportionate storm water runoff from each parcel. In addition, the annual aggregate amount of the assessment does not exceed the estimated annual cost of providing the service or facility; the revenue derived from the assessment is not to be used to pay the cost of any service or facility other than the service for which the assessment is levied; and the District may establish zones or areas of benefit and may restrict the imposition of the assessment to areas lying within such zones or areas of benefit. Prior to the first year of imposing the assessment, such imposition was approved by the eligible voters within the affected zone or area of benefit, and thereafter the collection of such assessment is collected on behalf of the District by the County on each parcel of property in the same manner, and subject to the same penalties and priority of lien on such property as other charges and real property taxes fixed and collected by the County. See "FLOOD PROTECTION AND STREAM STEWARDSHIP" and "SUMMARY OF MAJOR WATERSHED CAPITAL PROJECTS — Primary Sources Of Flood Control System Revenues" herein.

The District received requisite voter approval in its five flood control zones which encompass most but not all of Santa Clara County (the "County"). Each zone has a separate flood control program and is a separate fiscal entity with its own revenues and expenditures; however, all benefit assessments collected from all such zones are included in the definition of Flood Control System Revenues and, pursuant to the Master Resolution, the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement, are pledged to the payment of the District's obligations under the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement without distinction as to the zone or zones of collection and without distinction as to the zone or zones directly benefited by installation and improvement of the capital facilities financed from the proceeds of the 2012A Certificates.

In accordance with the Benefit Assessment Act, but subject to the voter-approved restrictions described below, the District currently levies a benefit assessment on each parcel of property in each of its five flood control zones based on (a) the District's costs of providing flood protection services and facilities in such zone, and (b) the proportionate amount of storm water runoff from such parcel of property. The amount of runoff from each parcel relates directly to its size and use, with larger sizes generating greater runoff, as does higher development with more impervious surfaces. In addition, the District's costs of providing flood protection services in a zone include the District's operating and maintenance expenses for facilities which benefit such zone, a proportionate share of the District's general administrative expenses and the costs of installation and improvement of capital facilities which benefit such zone, including the District's obligations incurred for such capital improvements.

In 1986, in order to accelerate the implementation of flood control projects, the eligible voters of each of the zones, except the North Central Zone, approved a benefit assessment program for each zone subject to the following restrictions: (a) the maximum annual percentage increase in the assessment rate could not exceed the annual increase in the Bay Area Consumer Price Index except for a period of up to two years following a declaration of a flood disaster by the President of the United States or the Governor of California; (b) benefit assessments could not be levied beyond June 30, 2000 unless a debt or other obligation was duly authorized and incurred and which depended on benefit assessments for service, and in that event, assessments could be levied for but not beyond the period for which such debt or other obligation is outstanding; (c) no such debt or obligation could be incurred after June 30, 1995 and; (d) that after June 30, 2000 such benefit

assessments could not be levied in amounts in excess of the sums necessary to meet the annual requirements of such debt or other obligation.

In 1990, in order to accelerate the implementation of flood control projects in the North Central Flood Control Zone, the eligible voters of that zone approved a benefit assessment program subject to the following restrictions: (a) the maximum annual percentage increase in the assessment rate for this zone could not exceed the annual increase in the Bay Area Consumer Price Index or 2 percent, whichever was greater, except that such limit may be exceeded for a period of up to two years following a declaration of a flood disaster by the President of the United States or the Governor of California; (b) benefit assessments shall not be levied beyond June 30, 2000 unless a debt or other obligation was duly authorized and incurred and which depends on benefit assessments for service and in that event assessments could be levied for but not beyond the period for which such debt or other obligation is outstanding; and (c) that after June 30, 2000 such benefit assessments could not be levied in amounts in excess of the sums necessary to meet the annual requirements of such debt or other obligation.

Pledge

Pursuant to the 1994 Installment Purchase Agreement, the District has pledged Flood Control System Revenues to secure the payment of the principal and interest components of the 1994 Installment Payments. The pledge of Flood Control System Revenues for the payment of the principal and interest components of the 1994 Installment Payments is on a parity with the pledge of Flood Control System Revenues made pursuant to the 1995 Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT — Flood Control System Revenues" herein.

Allocation of Flood Control System Revenues

Amounts from time to time on deposit in the Flood Control System Revenue Fund are to be allocated and applied by the District to the following purposes, at the following times and in the following order of priority:

(a) to the payment of all Parity Obligation Payments as the same become due and payable;

(b) to the replenishment of reserve funds securing Parity Obligations at the times and in the amounts required under the terms of instruments securing such Parity Obligations;

(c) to the payment of all Subordinate Obligation Payments as the same become due and payable;

(d) to the replenishment of reserve funds securing obligations of the District authorized and expected by the District under applicable law, the payments under and pursuant to which are payable from Flood Control System Revenues, subject and subordinate to Parity Obligation Payments and are payable from any fund established pursuant to a trust agreement (the "Subordinate Obligations") at the times and in the amounts required under the terms of instruments securing such Subordinate Obligations;

(e) to the payment of Maintenance and Operation Costs as the same become due and payable;

(f) Prior to the last Business Day of each Fiscal Year, after making each of the foregoing payments, the balance of the money in the Flood Control System Revenue Fund may be used for all lawful purpose of the Flood Control System (defined herein); and

(g) On the last Business Day of any Fiscal Year, to any lawful purpose of the District.

Rate Covenant

The District has covenanted to at all times fix, prescribe and collect or cause to be collected Flood Control Benefit Assessments in an amount equal to 125 percent of the Maximum Annual Debt Service on the then outstanding Parity Obligations during each Fiscal Year. In the event that the District shall take such actions to impose Fees in lieu of Flood Control Benefit Assessments, the amount of such Fees, together with other available Flood Control System Revenues, imposed in each Fiscal Year shall also be in an amount equal to 125 percent of the Maximum Annual Debt Service on the then outstanding Parity Obligations during each Fiscal Year, provided, however, prior to imposing such Fees in lieu of Flood Control Benefit Assessments, the District shall receive (i) an Opinion of Counsel as to the validity of such Fees to be imposed in an amount limited to the cost of providing Flood Control Service, and (ii) a certificate of an Independent Consultant as to the economic feasibility of imposing such Fees.

Additional Parity Obligations

The District may at any time incur or issue Parity Obligations (that is, Obligations the payments of which are payable from the Flood Control System Revenues on a parity with all other Parity Obligations, including without limitation the 1994 Installment Payments), provided:

(a) The District shall certify that the District is not then in default under any Trust Agreement or with respect to any Parity Obligation.

(b) Such Bond or Contract or Other Parity Obligation shall not allow the declaration of payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the District to execute Reimbursement Agreements.

(c) Long-Term Parity Obligations may be incurred provided that the Debt Service Coverage Ratio, as evidenced by a certificate of the District (together with supporting calculations in the Master Resolution for the most recent period of 12 full consecutive calendar months for which the financial statements of the District have been reported upon) by an independent certified public accountant, taking into account (i) all Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred and (iii) (A) the Flood Control Benefit Assessments then being collected as of such date of calculation, so long as the District has fixed, prescribed and caused to be collected such Flood Control Benefit Assessments, or (B) the Fees in lieu of Flood Control Benefit Assessments then being imposed, so long as the District has taken such actions to impose such Fees in lieu of Flood Control Benefit Assessments is not less than 125 percent of the Maximum Annual Debt Service, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with each Trustee along with the financial statements and report of accountants thereon if they are not already on file with such Trustee.

Certain other conditions and tests must be satisfied with respect to Parity Obligations that are not Long-Term Parity Obligations. See Appendix B — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE MASTER RESOLUTION."

Subordinate Obligations

The District may incur Subordinate Obligations without meeting the tests set forth for Parity Obligations.

Debt Service Reserve Fund

The Series 2012A Reserve Fund is established under the 2012 Trust Agreement and is required to be funded (i) initially in an amount equal to $6,186,923.43, and (ii) thereafter the lesser of the amount set forth in clause (i) above and the maximum annual principal and interest payments under the 1994 Installment Purchase Agreement allocable to the 2012A Certificates for the current or any future period of twelve consecutive months from each February 2 to February 1 during which 2012A Certificates are or will be outstanding (the "Series 2012A Reserve Fund Requirement"). The Series 2012A Reserve Fund Requirement will be funded from proceeds of the 2012A Certificates. If one day prior to any Interest Payment Date the moneys in the Series 2012A Payment Fund are insufficient to make the payments required by the 2012 Trust Agreement with respect to 2012A Certificates on such Interest Payment Date, the Trustee will transfer from the Series 2012A Reserve Fund to the Series 2012A Payment Fund the amount of such insufficiency.

If the amount available and contained in the Series 2012A Reserve Fund exceeds the Series 2012A Reserve Fund Requirement and if the District is not then in default under the Installment Purchase Agreement, the Trustee shall semiannually on or before August 1 and February 1 withdraw the amount of such excess from the Series 2012A Reserve Fund and shall deposit such amount in the Series 2012A Payment Fund, and for this determination the Trustee shall make a valuation of the Series 2012A Reserve Fund on each Interest Payment Date. In the event a portion of the 2012A Certificates are refunded or defeased, and upon direction by the District, the Trustee shall make a valuation of the Series 2012A Reserve Fund on the date of such refunding or defeasance and transfer any excess from the Series 2012A Reserve Fund in accordance with such direction from the District. Except for such withdrawals, all moneys in the Series 2012A Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying when due principal and interest with respect to the 2012A Certificates in the event that no other moneys of the District are available therefor or to pay such amounts at maturity.

For the purpose of determining the amount in the Series 2012A Reserve Fund, all Permitted Investments credited to the Series 2012A Reserve Fund shall be valued at their face or par value, as applicable. In making any valuations of Permitted Investments, the Trustee shall utilize such securities pricing services as may be available to it, including those within the Trustee's regular accounting system.

ESTIMATED SOURCES AND USES OF FUNDS[(1)]

The following is an estimate of the sources and uses of funds with respect to the refunding of the 2003A Certificates.

Sources:	
Principal Amount of 2012A Certificates	$ 52,955,000
Original Issue Premium	8,947,239
Transferred Moneys[(2)]	8,521,359
Total Sources	$ 70,423,598
Uses:	
Deposit to Escrow Fund	$ 53,494,531
Deposit to Acquisition and Construction Fund	10,342,886
Costs of Issuance[(3)]	275,865
Debt Service Reserve Fund	6,186,923
Underwriter's Discount	123,393
Total Uses	$ 70,423,598

(1) All amounts rounded to the nearest dollar; amounts may not independently add.

(2) From the funds and accounts created with respect to the 2003 Trust Agreement and from funds and accounts held by the District.

(3) Includes certain legal, financing and printing costs.

INSTALLMENT PAYMENT SCHEDULE

The 1994 Installment Payments with respect to the 2012A Certificates are required to be made by the District under the 1994 Installment Purchase Agreement from Flood Control System Revenues on a parity with the 1994 Installment Payments allocable to the 2004A Certificate and the 1995 Installment Payments allocable to the 2007 Certificates as set forth below:

Installment Payment Schedules

	1994 Installment Payments[1]			*1995 Installment Payments*[2]	
Year Ending February 1	***Principal***	***Interest***	***Total***	***Total***	***Total***
2013[3]	$ 8,475,000	$ 785,513	$ 9,260,513	$ 5,756,600	$15,017,113
2014	5,480,000	2,657,250	8,137,250	5,760,900	13,898,150
2015	5,650,000	2,423,200	8,073,200	5,762,150	13,835,350
2016	4,795,000	2,140,700	6,935,700	5,756,900	12,692,600
2017	5,040,000	1,900,950	6,940,950	5,760,150	12,701,100
2018	5,290,000	1,648,950	6,938,950	5,755,950	12,694,900
2019	5,555,000	1,384,450	6,939,450	5,756,200	12,695,650
2020	4,755,000	1,106,700	5,861,700	5,758,075	11,619,775
2021	4,995,000	868,950	5,863,950	5,764,000	11,627,950
2022	5,195,000	664,500	5,859,500	5,762,000	11,621,500
2023	5,410,000	451,850	5,861,850	5,756,250	11,618,100
2024	5,625,000	230,350	5,855,350	5,761,500	11,616,850
2025	-	-	-	5,756,750	5,756,750
2026	-	-	-	5,762,000	5,762,000
2027	-	-	-	5,761,250	5,761,250
2028	-	-	-	5,759,250	5,759,250
2029	-	-	-	5,760,500	5,760,500
2030	-	-	-	5,759,250	5,759,250
Total	$66,265,000	$16,263,363	$82,528,363	$ 103,669,675	$186,198,038

[1] Corresponds to the 2004A Certificates and the 2012A Certificates.
[2] Corresponds to the 2007A Certificates.
[3] Excludes payments made on and prior to November 20, 2012.

THE DISTRICT

Organization, Purpose and Powers

Santa Clara Valley Water District is a multi-purpose special district authorized to supply water and provide flood protection services in Santa Clara County, California (the "County"). The District encompasses the entire County which is one of the nine counties that make up the San Francisco Bay Area.

The District has broad powers relating to all aspects of the control of flood and storm waters within the District. Revenues realized from the District's water utility activities are not included in the definition of Flood Control System Revenues and, therefore, are not pledged to the payment of the District's obligations under the Installment Purchase Agreements.

The Flood Control System is defined in the Master Resolution as all property rights, contractual rights and facilities of the District relating to the flood and storm water control service now existing or hereafter

established. In general, the Flood Control System includes those structures and improvements described in the section entitled "FLOOD PROTECTION AND STREAM STEWARDSHIP."

For flood control administrative purposes, the District is divided into five zones which conform to the major watersheds in the valley. Each zone has a separate flood control program and is a separate fiscal entity with its own revenues and expenditures; however, all revenues of all such zones are included, without distinction, in the definition of Flood Control System Revenues. The northeastern portion of the County is not included in a flood control zone because streams in this area do not flow into the Santa Clara Valley.

The Law authorizes the District to exercise the power of eminent domain; to levy and collect taxes; to levy a groundwater charge for the production of water from groundwater supplies benefited by District recharge activities; to contract for the fixing, revision and collection of rates or other charges under contract for delivery of treated water, use of facilities or property or provisions for service. The District may issue bonds, borrow money and incur indebtedness. The District may also acquire property of any kind; enter into contracts; and adopt ordinances with the force of County law to effectuate its purposes. On September 14, 2006, the Governor of California approved Assembly Bill 2435 ("AB 2435"). AB 2435, which was co-sponsored by the County of Santa Clara and the District, removing the County's responsibility for approving the District's budget.

As provided under California law, the District receives taxes above its share of the limit set forth in Article XIIIA of the California Constitution for repayment of its obligation under its contract for water from the State Water Project. Such taxes are pledged to the payment of obligations under the State Water Project Contract, and are not included in the definition of Flood Control System Revenues. As provided under California law, the District also receives its share of the County-wide one percent tax levied. The portion of such proceeds allocable to the Flood Control System, including the watershed and stream stewardship program, are included in the definition of Flood Control System Revenues and, therefore, are pledged to the payment of the District's obligations under the 1994 Installment Purchase Agreement. See the caption "THE DISTRICT – 1% Property Tax Moneys" for a discussion of recent State legislation and a recently enacted amendment to the State Constitution affecting the District's receipt of a percentage of the County-wide one percent tax levy.

Board of Directors, Management and Employee Relations

Board of Directors. The Santa Clara Valley Water District Board of Directors is composed of seven members each elected from equally-divided districts drawn through a formal process. The purpose of the Board, on behalf of Santa Clara County, is to protect the public health and safety and enhance the quality of living within Santa Clara County by comprehensively managing water resources in a practical, cost-effective, and environmentally-sensitive manner. The Directors serve overlapping four-year terms, a structure created pursuant to the adoption of the District Act. The current Directors are:

Donald F. Gage, Director (District 1): Mr. Gage was elected in November 2010 for a four year term through December 2014. Mr. Gage began public service in 1981. He is a life-long resident of Santa Clara County and has previously served on the Gilroy City Council and Santa Clara County Board of Supervisors representing South County residents.

Joe Judge, Director (District 2): Mr. Judge was reelected in November 2008 for a four year term through December 2012. Mr. Judge began his service to the Santa Clara Valley Water District in 1986 when the Santa Clara County Board of Supervisors appointed him as an at large director to represent the North County. In 1996, he was elected by Santa Clara County voters to represent District 2. His tenure on the Board has included serving as Board Chair in 1989, 1996 and 2004 and Vice Chair in 1995 and 2009. Mr. Judge has not filed for reelection.

Richard P. Santos, Director (District 3): Mr. Santos was reelected in November 2008 for a four year term through December 2012. Mr. Santos represents the residents of Sunnyvale, Alviso community, Milpitas,

Berryessa/Alum Rock communities, east of Highway 101 to the Evergreen community area. While serving in the San Jose Fire Department, Mr. Santos was elected as vice chair for 12 years on the San Jose Police and Fire Retirement Board and was a labor representative of the San Jose Firefighters local union. He was then and is still very active as a volunteer for community services and as chair, spearheaded several civic activity fundraiser projects. Mr. Santos was also appointed to the 28-member South Bay Salt Pond Restoration Committee.

Linda J. LeZotte, Director (District 4) and 2012 Board Chair: Ms. LeZotte was elected in November 2010 for a four year term through December 2014. Ms. LeZotte represents the City of Campbell, portions of Willow Glen and the Cambrian, North Almaden and Blossom Hill areas of San Jose. Ms. LeZotte is a local attorney with 30 years of practice specializing in the areas of land use, environmental and municipal law and corporate development.

Patrick Kwok, Director (District 5) and 2012 Vice Chair: Mr. Kwok was reelected in November 2008 for a four year term through December 2012. In 2008, Mr. Kwok previously served on the Cupertino City Council from 2001 to 2007. He was elected by the Council as Mayor in 2004 and also served as Vice Mayor in 2004 and 2007.

Tony Estremera, Director (District 6): Mr. Estremera was elected in November 2010 for a four year term through December 2014. Mr. Estremera began his tenure on the Board of Directors in 1996. He has a long list of government experience in both appointive and elected positions, serves as directing attorney for the Legal Aid Society of Santa Clara County and is an active member of the State Bar of California and the Santa Clara County Bar Association.

Brian A. Schmidt, Director (District 7): Mr. Schmidt was elected in November 2010 for a four year term through December 2014. A resident of Santa Clara County since 1996, Brian Schmidt previously served as an advocate and spokesperson for the Committee for Green Foothills working to protect open spaces and natural resources in Santa Clara County. He has been involved in Santa Clara County Civic matters for 8 years, which includes previous service to the District as a member of the Environmental Advisory Committee and Performance Audit Committee.

Management. The District is headed by a Chief Executive Officer, District Counsel, Chief Administrative Officer, Chief Financial Officer, Chief Operating Officer - Water Utility, Chief Operating Officer - Watersheds, Chief Operating Officer - Capital and Clerk of the Board.

Beau Goldie, Chief Executive Officer: Beau Goldie is the Chief Executive Officer of the District, the water management agency for Santa Clara County's 1.8 million people. Mr. Goldie is focused on leading the District's unique integrated water resources mission which includes the supply of clean safe water, flood protection, and stewardship of streams Mr. Goldie joined the District in 1984 as an engineer and has worked in water supply planning, groundwater protection, environmental compliance, and watershed programs. Before being appointed as CEO, he served as Chief Operating Officer for Capital Programs Services. A resident of Morgan Hill, Mr. Goldie serves on the board of the San Jose Silicon Valley Chamber of Commerce. He is a registered professional engineer and holds a Bachelor of Science degree in Environmental Resources Engineering and a Master of Science degree in Civil Engineering.

Stan Yamamoto, District Counsel: Stan Yamamoto began his service as District Counsel on February 1, 2010. Mr. Yamamoto is a graduate of San Jose State University and earned his law degree at the University of Santa Clara School of Law. His experience in the public sector encompasses more than 29 years including having served as the City Attorney for the cities of Redwood City, Riverside, and Modesto California. He was a recipient of a National Urban Fellowship and received recognition as Management Leader of the Year (Public Sector) by the A. Gary Anderson Graduate School of Management, University of California, Riverside.

Jim Fiedler, Chief Operating Officer, Water Utility Enterprise: James Fiedler is the Chief Operating Officer for the District's Water Utility Enterprise. He has served in this capacity since 2007. A member of the District staff since 1982, he has over 29 years of leadership and engineering experience in the area of water supply, flood control and watershed stewardship. His management and technical experience includes regional water resources, flood and environmental planning, design, construction, operations and maintenance of water supply and flood protection infrastructure. Mr. Fiedler is a registered civil engineer in California. He is a graduate of Loyola Marymount University in Los Angeles with a Bachelor of Science degree in Civil Engineering, and graduate of Stanford University with a Master's degree in Civil Engineering.

Norma Camacho, Chief Operating Officer, Watersheds: Norma J. Camacho is the Chief Operating Officer for the District's Watersheds Operations. She joined the District in March 2012. Ms. Camacho has more than 25 years of long-range planning, program development, finance, and capital projects experience. Most recently she was the director of the Ventura County Watershed Protection District, directing day-to-day operations of a 142-person organization with a budget of $59 million. Prior to that position she served in the Ventura County Executive Office as deputy executive director of finance and budgets. Ms. Camacho holds a bachelor's degree in civil engineering (structural) from Stanford University. She is a member of the American Society of Civil Engineers and the American Public Works Association, and was recently vice-chair of the County Engineers Association of California Flood Control Committee.

Jesus Nava, Chief Administrative Officer: Mr. Nava's appointment to the Chief Administrative Officer position by the Chief Executive Officer was affirmed by the Board on October 9, 2012. Mr. Nava oversees the areas of Finance & Budget Services, Human Resources, Procurement & Operational Services, and Information Management Services. Mr. Nava has 29 years of fiscal, administrative and policy experience. Most recently, Mr. Nava was the Finance Director/Treasurer for the City of Burlingame where he was responsible for all aspects of financial services as well as directing information technology services. Prior to that, Mr. Nava was the Deputy City Manager for the City of San Jose where he served as the chief liaison for the ten-member city council. Mr. Nava has also served as City Manager for the City of Las Cruces, New Mexico; and as Assistant City Manager for the City of Laredo, Texas. Mr. Nava has a Master's degree in public administration from the University of Kansas. Mr. Nava also has a Bachelor's degree from the University of Texas.

Najon Chu, Chief Financial Officer: Najon Chu is the Chief Financial Officer for the Santa Clara Valley Water District overseeing the Financial Planning and Management Division. His responsibilities include providing organization-wide leadership on financial issues and decisions, while developing and implementing District–wide financial goals, strategies and programs which ensure the sustainability of the District. Mr. Chu manages the financial reporting and analysis, the development of the annual operating and capital budget, treasury and debt functions, the long-term financial forecast planning, revenue billing and collections, and the general accounting functions. He has been with the District for over 11 years, and prior to the District, over 11 years with the City of San Jose. Overall, Mr. Chu possesses over 35 years of financial management and accounting experience in both the public and private sector. He has been a member of the Government Finance Officers Association since 2001. Mr. Chu has a Bachelor of Science degree in Business Administration majoring in Accounting.

Michele L. King, CMC, Clerk of the Board: Michele King was appointed Clerk of the Board on Jan. 12, 2010. As a Board appointed officer, she reports directly to the Board of Directors and supervises a staff of 10. Ms. King has been with the District since 2004 and has had over 12 years' experience in providing support to elected officials of special districts. As a Certified Municipal Clerk and a member of the Northern California Clerks Association and the International Institute of Municipal Clerks, she brings years of experience and training to her job of assisting Board members and the public.

Employee Relations. As of Fiscal Year 2012-13, the District has 746 funded positions assigned to one of four functional groups as follows; Executive Management – 30 , Professional Managers Association – 56 , Engineers Society – 163 , and Employees Association – 497 . The District has three formally recognized bargaining units, the Employees Association, the Engineers Society, and the Professional Managers

Association. Employees and management engage in a cooperative relationship, meeting regularly to address problems of concern. Memoranda of Understanding (MOU's), or labor agreements, are entered into between the District and each of these bargaining units.

On December 27, 2011, the Board approved a new multi-year agreement between the District and the bargaining units. The agreement is a three year agreement which became effective January 1, 2012 and expires December 31, 2014. The current agreements include a 1.5% and 2.0% cost of living salary adjustment in Fiscal Years 2013-14 and 2014-15, respectively. On February 28, 2012, the Board approved the final resolution to amend the District's contract with the California Public Employment Retirement System ("PERS"), an agent multiple-employer pension system, to continue to participate in PERS with a two-tier benefit level: (1) benefits at the 2.5% of fiscal year compensation benefit level for every year of service for employees at age 55 ("2.5% @ 55") hired prior to March 19, 2012; and (2) benefits at the 2% of fiscal year compensation benefit level for every year of service for employees at age 60 ("2% @ 60") hired on or after March 19, 2012. Employees will reimburse the District 3.0% of the employer's Annual Required Contribution ("ARC") of the 2.5% @ 55 Formula Benefit Level through direct payroll deductions and pay the full 8.0% of the PERS employee (member) contribution. Employees hired under the 2.0% @ 60 formula benefit level will reimburse the District 3.0% of the employer's annual required contribution and employees will pay the full 7.0% of the PERS employee (member) contribution. These deductions will be pre-tax. Employees are eligible for the following retiree medical coverage: (1) employee hired on or after July 1, 1988 and prior to March 1, 2007 is eligible for (a) medical coverage for the employee with a minimum of 10 years (20,800 hours) of continuous District service, and (b) medical coverage for the employee plus one eligible dependent with a minimum of 15 years (31,200 hours) of continuous District service; and (2) employee hired on or after March 1, 2007 is eligible for (a) medical coverage for the employee with 15 years (31,200 hours) of continuous District service, and (b) medical coverage for the employee plus one eligible dependent with 20 years (41,600 hours) or more years of continuous District service.

Defined Benefit Pension Plan

The District is a member of PERS which provides a contributory defined benefit plan for all permanent employees of the District. These benefit provisions and all other requirements are established by California law. District employees are required to contribute a percentage of their annual covered salary to PERS as summarized in the Employee Relations section above. The District makes the contributions required of District employees on their behalf and for their account. The District, as employer, is required to contribute the amounts necessary to fund PERS, using the actuarial basis specified by California law. The required employer contribution rate as a percentage of covered payroll for the District for Fiscal Year 2010-11 was 13.532%. The annual pension cost of the District for Fiscal Year 2010-11 was $11,325,005, which is equal to the District's required and actual annual contributions. The required annual contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions include (a) 7.75% investment rate of return net of administrative expenses; (b) projected annual salary increases that vary by duration of service; and (c) inflation of 3.0%. The actuarial value of PERS assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. All annual pension costs are paid upon receipt of invoices.

In October 2011, the District received an updated annual valuation report from PERS as of June 30, 2010 which included the required contributions for Fiscal Year 2012-13 and the projected contributions for Fiscal Years 2013-14 and 2014-15. Based on this report, the District's annual required employer contribution rate as a percentage of covered payroll for Fiscal Years 2011-12 and 2012-13 is 16.675% and 16.694% respectively. The projected annual required contribution amount for Fiscal Years 2011-12 and 2012-13 is $14,925,990 and $14,998,945 respectively. The District made the required annual employer contribution in full for Fiscal Year 2011-12 and the Board approved FY 2012-13 budget includes full payment of the annual

required contribution for Fiscal Year 2012-13. The unfunded liability based on actuarial value of assets is $86,587,943; the funded ratio based on actuarial valuation of assets is 82.2%. The unfunded liability based on market valuation of assets is $171,673,645; the funded ratio based on market value of assets is 64.7%. The projected employer contribution rate as a percentage of covered payroll for Fiscal Year 2013-14 and 2014-15 is 16.9% and 17.1% respectively. The projected rate for Fiscal Year 2013-14 is based on a projection of the investment return for Fiscal Year 2010-11 of 20.0%. The estimated rate for Fiscal Year 2014-15 uses the valuation assumption of 7.75% as the investment return for Fiscal Year 2011-12. The projections for Fiscal Year 2013-14 and 2014-15 also assume that there are no future amendments and no liability gains or losses (such as larger than expected pay increases, more retirements than expected, etc.). Any deviations from the assumptions described above or any other assumptions utilized by PERS can have a significant impact on the District's future contribution rates. The projections do not reflect the reduction in benefit levels for employees hired on or after March 19, 2012 as described in the Employee Relations section above. The District projects increases in contributions in future years according to PERS contribution requirements.

On March 14, 2012, PERS approved a change in the inflation assumption used in the actuarial valuations used to determine employer contribution rates. The inflation assumption was changed from 3% to 2.75% effective July 1, 2012. The change will impact the inflation component of the annual investment return assumption and the long term payroll growth assumption as follows:

- The annual assumed investment return decreased from 7.75% to 7.5%.
- The long term payroll growth assumption decreased from 3.25% to 3%.
- The inflation component of individual salary scales decreased from 3.25% to 3%.

Although the impact of the above changes is not yet clear, these changes may result in increases in contribution levels; however, the reduction in the inflation assumption could partially mitigate increases, if any, in the District's required annual contributions resulting from the reduction in the assumed investment rate of return, as described above.

PERS earnings reports for Fiscal Years 2010 and 2011 reported an investment gain in excess of 13.0 and 21.7%, respectively. On July 16, 2012, PERS preliminarily reported an investment gain of 1% in Fiscal Year 2012. Future earnings performance may increase or decrease future contribution rates for plan participants, including the District.

Other Post-Employment Benefits

The District provides other post-employment benefits ("OPEB"), including health care, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board for retired employees and/or their surviving spouses who meet the eligibility requirements and elect the option.

The Governmental Accounting Standards Board Statement ("GASB") No. 45 establishes standards for the measurement recognition and financial reporting for employers providing postemployment benefits other than pension. The provisions of GASB No. 45 are implemented prospectively and do not affect prior years' financial statements. The District implemented GASB No. 45 during Fiscal Year 2007-08. On June 24, 2008, the District's Board of Directors adopted a resolution approving the agreement and election of the District to prefund OPEB through CalPERS under its California Employer's Retiree Benefit Trust ("CERBT") Program. On September 9, 2008, the District joined CERBT, an agent multiple-employer plan consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Employees' Retirement System, P.O. Box 942703, Sacramento, CA 94229-2703.

On June 24, 2008, the Board of Directors approved the reallocation of $17.7 million from its existing reserves for the initial prefunding of the unfunded liability as part of its multi-year financial planning strategy. Subsequent years' funding, pursuant to the annual budget approved by the Board of Directors, would be phased in to gradually reach full funding of the ARC by the sixth year in order to limit its immediate impact on groundwater charge increases and the funding of core services within limited available revenues. The District anticipates funding more than 100% of the ARC in Fiscal Year 2012-13. Thereafter, the District expects to fund 100% of the ARC in each Fiscal Year.

The District's annual OPEB cost is calculated based on the ARC of the employer, and the amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for Fiscal Year 2010-11, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan.

Annual OPEB Obligation for Fiscal Year 2010-11

Annual required contribution	$13,860,869
Interest on net OPEB obligation	456,600
Adjustment to annual required contribution	(387,100)
Annual OPEB cost (expense)	13,930,369
Contributions made	(10,172,952)
Increase (decrease) in Net OPEB obligation	3,757,417
Net OPEB obligation, June 30, 2010	6,170,273
Net OPEB obligation, June 30, 2011	$9,927,690

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2009 through 2011 are summarized in the table below.

Net OPEB Obligation

Fiscal Year Ended	*Annual OPEB Cost*	*% of Annual OPEB Cost Contributed*	*Net OPEB Obligation*
6/30/2009	$14,638,000	164.35%	$649,032
6/30/2010	13,306,561	58.51%	6,170,273
6/30/2011	13,930,369	73.03%	9,927,690

The funded status and funding progress as of December 31, 2008, the valuation date as reported in the Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2011 are summarized in the table below.

Net OPEB Obligation

As of December 31, 2008

Actuarial accrued liability (AAL)	$150,156,794
Actuarial value of plan assets	19,580,319
Unfunded actuarial accrued liability (UAAL)	130,576,475
Funded ratio (actuarial value of plan assets/AAL)	13.0%
Covered payroll	76,369,316
UAAL as a percentage of covered payroll	171.0%

Subsequent to the December 31, 2008 valuation date as reported in the Fiscal Year 2011 Comprehensive Annual Financial Report, the District received an updated Actuarial Valuation of Postretirement Welfare Benefits Under GASB 43/45 Report prepared by Rael & Letson Consultants and Actuaries as of June 30, 2011. Based on this report, as of June 30, 2011, the District had $123,788,000 in unfunded actuarial accrued OPEB liability. The unfunded actuarial accrued liability as a percentage of covered payroll is 151%. As of September 30, 2012, the market value of the District's assets in the CERBT were $51.2 million. The estimated ARC is $10,979,100 and $10,964,500 for Fiscal Years 2011-12 and 2012-13, respectively. The District anticipates providing $15.1 million towards the ARC in Fiscal Year 2012-13 having already contributed $9.1 million to the CERBT on July 11, 2012 and budgeted an additional $6.0 million for normal costs. The District does not expect that any increased funding of other post-employment benefits will have a material adverse effect on the District's obligations with respect to the 1994 Installment Purchase Agreement.

Other Benefits

The District provides the following employer paid benefits except as otherwise stated: medical (employees pay 15% of the premium and the District pays 85% of the premium), vision, dental, basic life insurance, and basic long-term disability. Employees may also purchase supplemental life, supplemental long-term disability, and accidental death and dismemberment insurance.

The District has established a deferred compensation plan for employees wishing to defer part of their salaries. Under certain conditions, the District makes matching contributions. In Fiscal Year 2010-11 the District contributed $395,289.26 to the deferred compensation plan.

Insurance

General Liability Insurance. Since January 1, 1987, the District has maintained a self-insurance program in connection with its General Liability risks, including non-vehicular loss exposures due to premises, operations, personal injury and product liability.

Under this program, the District is responsible for the first $2,000,000 per occurrence for all General Liability claims. The District also purchases General Liability insurance with limits of not less than $50,000,000 per occurrence and aggregate in excess of its $2,000,000 self-insured retention.

The District maintains a risk management information system to track claims, litigation and establishes claims reserves which are used to derive self-insurance fund requirements. These funding requirements are reviewed by outside actuaries biannually.

Property Appraisal and Insurance. A property appraisal and valuation of the District's buildings and contents was prepared in April 2006 for the period ending that date. The appraisal was in conformity with generally accepted appraisal practices for purposes of establishing insurable values and property records. The report provides current replacement costs for buildings and equipment in the event of a loss. The total insured value of the property program is $393,412,452.

The District maintains blanket property insurance coverage for its buildings and equipment, covering all traditional perils, but excluding earth movement and risks that are usually covered by bonds. The current blanket limit for this coverage is $250,000,000, far in excess of any expected loss. There are sublimits for particular perils consistent with normal property policies and appropriate to District loss exposures. The District's dams are not insured, nor does the District carry flood insurance.

Workers' Compensation. Since January 1, 1994, the District has maintained a self-insurance program in connection with its Workers' Compensation risks. Under this program, the District is responsible for the first $1,000,000 per occurrence of any loss. The District also purchases Workers' Compensation Insurance with statutory limits above this self-insured retention and Employers' Liability limits of $1,000,000 per employee/accident.

The District contracts with a third party claims administrator to review, investigate, track, pay and set case reserves for Workers' Compensation claims. As with the General Liability self-insurance program, these reserves are used to derive funding requirements. Actuarial study frequency and funding confidence levels are the same as described above for the General Liability program.

Budgeting Process

The District's budget process uses a goal-driven approach that spans the planning, development, adoption and execution phases of the budget. These practices encourage development of organizational goals, and establishment of policies and plans to achieve these goals and policies. The guidelines used by the District in developing this formal budget process are the recommended budget practices for improved state and local government budgeting prepared by the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association.

The District traditionally develops an annual spending document for all funds. The cycle encompasses the guidance of several documents and processes that include: project planning, long-range planning; the long range Capital Improvement Plan; the Priority Setting Matrix; and resource allocations. After adoption by the District's Board of Directors, the District has authority to expend the appropriations for the given Fiscal Year. Annually at mid point during the Fiscal Year, a mid-cycle review is required. During the review period, budget amendments and adjustments will be made to reflect changes in financial conditions, programs and/or authorizing laws that affect ongoing expenditures. The budget cycle is completed with the review and alignment of staff work plans to be consisted with the resource allocation made in the Adopted budget.

The current budget for Fiscal Year 2012-13 was approved by the Board on May 15, 2012.

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Debt Structure of the District

The District's long-term debt outstanding as of June 30, 2012 consisted of the following.

Schedule Of Long-Term Indebtedness
(Dollars in Thousands)

Type of Indebtedness	*Authorized and Issued*	*Maturity*	*Principal Balance Outstanding June 30, 2012*[(1)]
Flood Control Installment Purchase Agreements			
1994 Installment Purchase Agreement[(1)(2)]	$ 144,620	2024	$ 65,670
1995 Installment Purchase Agreement[(1)(3)]	83,110	2030	67,770
2006 Water Utility System Refunding Revenue Bonds			
Series A and Taxable Series B	$ 99,835	2035	$ 86,515
2007 Water Revenue Certificates of Participation			
Series A and Taxable Series B	$ 131,000	2037	$ 123,965
Department of Water Resources Loan	$ 6,350	2027	$ 5,445
Total:	$ 473,765		$ 349,365

(1) See "SECURITY AND SOURCES OF PAYMENT – Pledge" for a discussion of the priority of the pledge of Flood Control System Revenues with respect to the 1994 Installment Purchase Agreement and 1995 Installment Purchase Agreement.
(2) From which the 2003A Certificates and the 2004A Certificates were executed and delivered.
(3) From which the 2007A Certificates were issued.
Source: Santa Clara Valley Water District.

Over the next five years, the District expects to issue additional debt for flood protection projects secured by special parcel tax revenue as a result of the approval of the Safe Clean Water ballot measure on November 6, 2012. The Safe Clean Water and Natural Flood Protection Program renews the existing, expiring Clean, Safe Creeks and Natural Flood Protection parcel tax which sunsets in 2016 without increasing the tax rates. The approval of the Safe Clean Water and Natural Flood Protection Program extended the parcel tax for 15 years and is projected to generate approximately $548 million in parcel tax revenue over this time period. Revenue from the Safe Clean Water special parcel tax is not currently included in the projection of Flood Control System Revenues. See the caption "THE DISTRICT—Clean Safe Creeks and Natural Flood Protection Initiative."

Ad Valorem Taxes

The District has historically levied *ad valorem* taxes on real property the proceeds of which were restricted to repayment of the following bonded indebtedness related to the water utility system:

Water Utility System — Zone W-1 Bonds. These general obligation bonds were repaid in full on March 1, 2012.

Water Utility System — State Water Project. Since 1961, the District has contracted with the California Department of Water Resources to buy water from the State Water Project. A property tax is levied each year to pay the State the District's contract obligation. For the Fiscal Year ended June 30, 2011 the District received tax revenues of $18,566,000 to pay the District's contract obligation.

General Obligation Tax Rates
(% of Assessed Value)

	Fiscal Year Ending June 30, 2010 Tax Rates[(1)]	*Fiscal Year Ending June 30, 2011 Tax Rates*[(1)]	*Net Changes*
District			
State Water Project	0.00639%	0.00631%	(0.00008)%

(1) Total value less all exemptions.
Source: Santa Clara Valley Water District.

The following table represents a five-year history of assessed valuation in the District:

SANTA CLARA VALLEY WATER DISTRICT
Assessed Valuations
Fiscal Years Ending June 30
(Dollars in Thousands)

	Net Local Secured	State Board of Equalization (SBE)	Net Unsecured	Total
2007	$241,363,008	$587,685	$17,998,934	$259,949,627
2008	261,930,112	537,968	18,578,048	281,046,128
2009	279,767,066	554,935	20,381,412	300,703,413
2010	279,623,760	602,948	21,112,122	301,338,830
2011	274,020,130	595,208	19,652,921	294,268,259

Source: County of Santa Clara Property Tax Apportionment Division

1% Property Tax Moneys

Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter approved indebtedness). A one percent property tax is automatically levied by each California county and distributed according to a formula among taxing agencies. The District has used proceeds from the one percent tax levy to provide flood protection, stream stewardship, water quality and water supply, and administration plus debt service for the District as a whole.

The following table shows the allocation of property taxes for their distribution over the past five years.

Allocation Of The District Share Of County 1% Property Tax
Fiscal Years Ending June 30[(1)]
(Dollars in Thousands)

Distribution	*2007*	*2008*	*2009*	*2010[(2)]*	*2011*
General Fund	$4,402	$4,734	$5,000	$4,441	$4,684
Water Utility Fund	3,869	4,211	4,419	4,307	4,166
Flood Control Zones[(3)]	44,677	48,012	50,660	45,010	47,567
Total:	52,948	56,957	60,079	53,758	56,417

(1) The District's allocation of the County's 1% Property Tax is impacted by its participation in the County's Teeter Plan. See "SUMMARY OF MAJOR WATERSHED CAPITAL PROJECTS—Teeter Plan" herein. There can be no assurance that the Teeter Plan or the participation of the District therein will be continued indefinitely. See the caption "FLOOD PROTECTION AND STREAM STEWARDSHIP—Teeter Plan."
(2) Shifted pursuant to the ERAF Shift discussed below.
(3) Includes allocation of the County's 1% Property Tax for watershed and stream stewardship program.
Source: Santa Clara Valley Water District.

Moneys received by the District as the District's share of the County one percent tax levy are allocated by Board action each year among various District activities. Upon allocation of one percent tax moneys by the Board to the Flood Control System such moneys are Flood Control System Revenues and are pledged to the payment of principal and interest with respect to the Installment Payments and are available, but are not required to be used, to pay Maintenance and Operation costs of the District's facilities.

On November 2, 2004, State voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not, among other things: (i) shift property taxes from local governments to schools or community colleges; or (ii) change how 1% ad valorem property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature. Beginning in State fiscal year 2009-10, the State was permitted to shift to schools and community colleges a limited amount of local government property tax revenues if certain conditions are met, including: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State; and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

On July 28, 2009, the Governor of the State signed a revised State fiscal year 2009-10 budget which included a shift (the "ERAF Shift") of approximately 8% of the 1% ad valorem property tax revenues (other than unitary taxes) from certain local agencies, including the District, to school districts and other governmental agencies. Pursuant to Proposition 1A, the State was obligated to repay the portion of the 1% ad valorem property taxes that was subject to such ERAF Shift, totaling approximately $4.8 million, to the District by State fiscal year 2012-13, plus interest at the rate of 2% per annum, all in accordance with Proposition 1A.

Clean Safe Creeks and Natural Flood Protection Initiative

On November 7, 2000, the voters of the County, by not less than two-thirds of those voting, approved a special parcel tax as authorized in California and pursuant to Resolution 2000-44 of the District Board. The tax is levied for a period of fifteen years at fixed and uniform rates per area and according to the county-designated land use of each parcel subject to the tax, including a minimum rate for single family residential parcels under one-quarter of an acre in size. Government-owned property is exempt from the tax, and the state legislature has authorized low-income senior citizens who own and occupy property to apply for an exemption. Revenue from the tax is used to accomplish and fund a number of outcomes and activities of the District described in the program plan. Some of the funds are spent on pay-as-you go flood protection measures and

stream maintenance as well as stream stewardship and recreational opportunities. Revenues from the tax are not Flood Control System Revenues and are not available for securing debt obligations of the District. See the caption "THE DISTRICT—Debt Structure of the District" for a discussion of the District special parcel tax that was approved on November 6, 2012.

FLOOD PROTECTION AND STREAM STEWARDSHIP

General

The District is responsible for overseeing the flood protection and stream stewardship needs of the County. The State legislature added stream stewardship as an objective in an amendment to the District Act in 2002. The Law provides for, among other things, the control of flood and storm waters of the District and the flood waters of streams that have their sources outside the District, but which streams and flood waters flow into the District. To address these matters on a watershed drainage basis, the District is divided into five flood control zones. The five zones are the Northwest, North Central, Central, East and South. These zones approximately conform with the major watersheds affecting the valley floor of the District. The watersheds of the four northern zones drain storm waters from the foothills across the valley floor and into the San Francisco Bay. The South Zone drains into Monterey Bay through the Pajaro River. Each zone has separate programs to provide flood protection and stream stewardship and each operates as a separate fiscal entity with its own revenues and expenditures. The area of the District that is not included in one of these zones is the northeast section of the County. That area is part of a watershed where the streams flow north, out of the District, before flowing across the valley floor. Each of the zones has a committee that is advisory to the Board of Directors with regard to flood protection and stream stewardship policy, activities and budget review. The advisory committee for each zone is composed of a representative appointed by each city that is in the zone and the County and by at large members appointed by the Board.

The District has been providing flood protection measures since 1951. These measures include maintenance and construction of flood protection facilities. The District's priority is to provide flood protection in a non structural way, through coordination with the local land use agencies, resorting to using structural flood control methods only as a last alternative. The level of protection that the District provides as a matter of policy is protection from flood damage that would result from a one percent flood (the flood that has a one percent chance of occurring in any given year). The current damage that would result from a countywide one percent flood is greater than $2 billion. More than 65,000 homes, 5,000 businesses and 20,000 acres of agricultural land are subject to flooding.

Northwest Zone includes the cities of Palo Alto, Los Altos, Los Altos Hills, and Mountain View and portions of Cupertino and Sunnyvale. It covers the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek that are also referred to as the Lower Peninsula Watersheds.

North Central Zone includes the City of Saratoga and portions of the cities of Sunnyvale, Santa Clara, Campbell, Cupertino, Monte Sereno, San Jose, and Los Gatos. This zone includes the watersheds that flow into Guadalupe Slough, which include Sunnyvale East and West Outfalls, Calabazas Creek, and San Tomas Aquino Creek. They are referred to as the West Valley Watersheds.

Central Zone includes portions of the communities of Santa Clara, San Jose, Campbell, Monte Sereno, and Los Gatos. It includes the tributaries of the Guadalupe River Watershed.

East Zone includes the City of Milpitas and portions of the cities of San Jose and Morgan Hill. It includes the tributaries of the Coyote Creek Watershed.

South Zone includes the southernmost portions of the County, the City of Gilroy, portions of the Cities of San Jose and Morgan Hill and the Community of San Martin. It includes the Llagas and Uvas Creek watersheds which are tributaries to the Pajaro River.

Flood Management Facilities

The District has jurisdiction over 115 major creeks and tributaries each with drainage areas larger than 320 acres. It manages over 700 miles of levees, channels, floodwalls, pipelines and natural waterways. It provides maintenance for over 6,000 acres of flood protection right of way that it has in either fee title or easement.

Future Capital Project Funding

During the current and next four fiscal years, the District expects to spend approximately $289 million to complete flood protection capital projects from several funding sources. Such projects include the Permanente Creek, San Francisquito Creek, Calabazas Creek, Sunnyvale East and West Channels, Guadalupe River, Coyote Creek, Berryessa Creek, Upper Penitencia Creek, Lower Silver Creek, and Llagas Creek.

The District is also undertaking additional flood protection capital projects to be completed beyond the next five years to be funded from various sources of funding. The District expects to finance these other watershed capital projects from four primary sources of funding: (i) pay-as-you go funding from current income, accumulations of prior year income, special parcel tax proceeds (see the caption "THE DISTRICT — Clean Safe Creeks and Natural Flood Protection Initiative") and certain other District moneys, (ii) cost sharing through federal sponsorship and (iii) subventions from the State of California Department of Water Resources.

Over the next five years, the District may enter into additional debt for flood protection projects if voters approve the Safe Clean Water ballot measure in November 2012. See the caption "PLAN OF FINANCE – Flood Control Improvements" herein. While the District does not expect to receive any federal moneys for its watershed capital projects over the next five years, the District does expect to receive State moneys for its watershed capital projects over the next five years although exact amounts cannot be determined at this time.

Primary Sources of Flood Control System Revenues

Flood Control Benefit Assessments. Prior to 1978, flood control services in the District were primarily funded by *ad valorem* property taxes. The passage of Proposition 13 in 1978 greatly reduced *ad valorem* tax revenues for flood control. The State legislature passed a benefit assessment act, which is now entitled The Benefit Assessment Act of 1982, to provide a source of funds to pay the costs of certain services, including flood control, by authorizing local agencies to levy assessments based on the benefit of services provided rather than on property value for flood control, the basis of benefit is proportionate to storm water runoff of each parcel. The Board first adopted benefit assessments in the District's flood control zones in 1981, in accordance with the law in effect at that time. The levy of flood control benefit assessments was subsequently endorsed by District voters who periodically renewed the District's authority to levy said benefit assessments that included a sunset provision and long term debt repayment provisions. The Benefit Assessment Act is more fully described herein under "SECURITY AND SOURCES OF PAYMENT — Flood Control System Revenues - Benefit Assessments."

The District's initial goals for the benefit assessment revenues were improved maintenance, increased flood control construction, and continued land use management. Beginning July 1, 2000 when the sunset provision went into effect, benefit assessments were limited to an amount which would be sufficient to pay long term debt obligations in effect at that time until their repayment. The current debt obligation is to meet a maximum of 1.25 times the debt service for outstanding Parity Obligations.

Under the adopted benefit assessment system, the Board established six rate categories of land use for properties within the five flood control zones as follows:

Group A: Commercial and industrial.

Group B: Apartments and other high-density residential uses, schools, churches.

Group C: Single-family residential, small multiples (two to four units), condominiums and townhouses.

Group D: Residential land in excess of ¼ acre, land used for farming, vineyards, irrigated crops, parks, etc.

Group E: (1) Urban: Vacant land—undisturbed, not tilled or planted or irrigated; benefited grazing land; salt ponds—areas close to urban service areas. (2) Rural: Vacant land—undisturbed, not tilled or planted or irrigated; benefited grazing land—remote areas not close to urban services.

District flood control benefit assessments are set annually by the Board and are limited to the long-term debt service plus coverage requirements. The rate ceilings in effect for Fiscal Year 2010-11, and are shown in the following table.

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Flood Control Benefit Assessment Rates &
Minimum Flood Control Benefit Assessments[1]
Applicable To Defined Land Use Categories
Fiscal Year 2010-11

Land Use Category	*Northwest*	*North Central*	*Central*	*East*	*South*
A - Commercial, Industrial					
Assessment rate per acre	$378.00	$138.12	$230.64	$200.90	$126.96
Minimum assessment per parcel	94.50	34.54	57.66	50.22	31.74
B – Apartments, Schools, Churches					
Assessment rate per acre	$283.50	$103.60	$172.98	$150.68	$95.22
Minimum assessment per parcel	70.88	25.90	43.24	37.66	23.80
C – Residential					
Assessment rate per acre[2]	$ [2]	$ [2]	$ [2]	$ [2]	$ [2]
Minimum assessment per parcel	47.25	17.26	28.84	25.12	15.88
D – Utilized Agricultural					
Assessment rate per acre	$2.362	$0.864	$1.442	$1.256	$0.794
Minimum assessment per parcel	23.62	8.64	14.42	12.56	7.94
E – Nonutilized Agricultural, Grazing Land, Well Sites					
Assessment rate per acre:					
Urban	$0.708	$0.259	$0.432	$0.376	$0.238
Rural	0.088	0.032	0.054	0.047	0.030
Minimum assessment per parcel	7.08	2.59	4.32	3.76	2.38

[1] Minimum assessments in Groups A, B and C apply to parcels ¼ acre or less in size. Category C parcels larger than ¼ acre pay the minimum assessments for the first ¼ acre and the remaining acreage is assessed at the Category D rate. For Category D, the minimum assessment applies to parcels less than ten acres. The minimum assessment for Group E parcels is the amount charged for 10 acres of urban undeveloped land; the minimum assessment is the same for both the Urban Category and Rural Category parcels and applies to parcels less than ten acres in the Urban Category and to parcels less than 80 acres in the Rural Category.

[2] Residential land in excess of ¼ acre is assessed at the Category D rate.

Source: Santa Clara Valley Water District

The size of each parcel and its land use is available from the County Assessor's records. Using this information and based on the runoff relationship for the County land use categories, the District developed assessment rates and minimum rates for each flood control zone.

The District has an arrangement with the County whereby the County Tax Collector is responsible for collecting benefit assessments along with other items on the annual property tax bills. The flood control benefit assessments are a lien on secured parcels in the same manner as *ad valorem* property taxes. The District is on the Teeter Plan and receives the full amount of the benefit assessments, less a maximum of 1% retained by the County as a collection fee. See "SUMMARY OF MAJOR WATERSHED CAPITAL PROJECTS — Teeter Plan" herein.

The following tables show the Benefit Assessment Billings and Collections for the last five Fiscal Years ending June 30, 2011, the Flood Control Benefit Assessment Revenue By Flood Control Zone for the last five Fiscal Years ending June 30, 2011, and the Top Ten Santa Clara County Landowners With Largest Benefit Assessments.

Benefit Assessment Billings And Collections
Fiscal Years Ending June 30
(Dollars in Thousands)

Fiscal Year[(1)]	*Billings*[(2)]	*Ratio of Collections To Billings*[(3)]
2007	$19,407	99.0%
2008	18,047	99.0
2009	19,450	99.0
2010	19,420	99.0
2011	19,284	99.0

(1) Beginning in Fiscal Year 2001, benefit assessments were limited to an amount sufficient to pay the payments due under the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement which resulted in a decrease in billings.

(2) Billings amount does not include collection fee charged by the County Director of Finance.

(3) The District is covered by the Teeter Plan and receives its full assessments less the collection fee that is kept by the County Tax Collector prior to disbursement of assessments to District. See "SUMMARY OF MAJOR WATERSHED CAPITAL PROJECTS — Primary Sources of Flood Control Systems Revenues" and "— Teeter Plan."

Source: Santa Clara Valley Water District

Flood Control Benefit Assessment Revenue By Flood Control Zone[(1)]
Fiscal Years Ending June 30
(Dollars in Thousands)

Flood Control Zone	*2007*	*2008*	*2009*	*2010*	*2011*
	Actual	**Actual**	**Actual**	**Actual**	**Actual**
Northwest	$4,647	$4,108	$4,648	$4,642	$4,611
North Central	2,952	2,792	2,958	2,951	2,909
Central	6,232	6,067	6,258	6,246	6,167
East	4,623	4,144	4,630	4,626	4,652
South	760	757	762	760	751
Total	$19,213	$17,867	$19,256	$19,225	$19,091

(1) The amount shown is net of the collection fee charged by the County Director of Finance.

Source: Santa Clara Valley Water District.

Top Ten Santa Clara County
Landowners With Largest Benefit Assessments

Landowner[(1)]	*Zone*	*Benefit Assessments Billed in Fiscal Year Ending August 30, 2013*	*Percentage of Total Assessments Billed*
Leland Stanford Jr. University	Northwest	$589,761	3.04%
Mission West Properties	East, Central, North Central and South	102,243	0.53
Sobrato	East, Central, North Central and Northwest	101,095	0.52
Heidleberg and Hanson Permanente Cement (Kaiser)	Northwest	85,000	0.44
Richard Perry	East, Central, North Central, and Northwest	84,500	0.44
Spieker	East, North Central and Northwest	83,682	0.43
Lockheed Missiles and Space	North Central	72,070	0.37
Google	Northwest	67,283	0.35
Silicon Valley CA	East, Central, North Central, and Northwest	64,190	0.33
Roman Catholic Church	East, Central, North Central, Northwest, and South	51,562	0.27

(1) The information regarding property ownership is based on the District's review of Santa Clara County Assessor's Office records. Owner names and spelling may not be consistent in such records and, therefore, the information shown above may be incomplete.
Source: Santa Clara Valley Water District.

Teeter Plan

In 1993, the District adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") as provided for in Section 4701 *et seq*. of the Revenue and Taxation Code of the State. Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a tax redemption distribution system for all taxing agencies is avoided. Pursuant to the Teeter Plan, the County establishes a tax losses reserve fund and a tax resources account and each entity levying property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its tax fund in the same manner as if the amount credited had been collected.

The County is responsible for determining the amount of the tax levy on each parcel which is entered onto the secured property tax roll. Upon completion of the secured property tax roll, the County's Auditor-Controller determines the total amount of taxes and assessments actually extended on the roll for each tax fund for which a tax levy has been included, and apportions 100 percent of the tax and assessment levies to that tax fund's credit. Such moneys may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected. The County determines which moneys in the County treasury (including those credited to the tax losses reserve fund) shall be available to be drawn on to the extent to the amount of uncollected taxes credited each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan moneys are distributed to the apportioned tax resources accounts.

Direct and Overlapping Debt

Direct and overlapping debt with respect to the District's service area as of June 30, 2012, is shown in the following table prepared by California Municipal Statistics, Inc. The Debt Report has been derived from

data assembled and reported to the District by California Municipal Statistics, Inc. None of the District, the Underwriters nor Public Resources Advisory Group, the financial advisor to the District, have independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

Statement of Direct and Overlapping Debt
June 30, 2012

2011-12 Assessed Valuation:	$298,909,571,824
Redevelopment Incremental Valuation:	30,544,558,981
Adjusted Assessed Valuation:	$268,365,012,843

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/12	% Applicable	District's Share of Debt 6/30/12
Santa Clara County	$316,800,000	100. %	$ 316,800,000
Foothill-DeAnza Community College District	628,424,288	100.	628,424,288
San Jose-Evergreen Community College District	319,168,992	100.	319,168,992
Other Community College Districts	621,283,081	0.044-98.666	288,101,939
Gilroy Unified School District and Lease Tax Obligations	178,163,171	100.	178,163,171
Palo Alto Unified School District	221,669,249	100.	221,669,249
San Jose Unified School District	481,247,986	100.	481,247,986
Santa Clara Unified School District	441,095,000	100.	441,095,000
Other Unified School Districts	130,920,152	1.175-100.	99,453,173
Campbell Union High School District	161,195,000	100.	161,195,000
East Side Union High School District	638,508,678	100.	638,508,678
Fremont Union High School District	260,605,108	100.	260,605,108
Other High School Districts	99,131,663	94.129-100.	96,128,059
Campbell School District	148,704,944	100.	148,704,944
Cupertino Union School District	120,672,535	100.	120,672,535
Evergreen School District and Community Facilities District No. 92-1	113,155,551	100.	113,155,551
Franklin McKinley School District	80,756,314	100.	80,756,314
Los Altos School District	83,603,480	100.	83,603,480
Los Gatos Union School District	94,060,000	100.	94,060,000
Moreland School District	85,223,316	100.	85,223,316
Oak Grove School District	106,774,352	100.	106,774,352
Sunnyvale School District	134,680,247	100.	134,680,247
Other School Districts	362,851,991	5.140-100.	355,910,709
City of Gilroy	33,190,000	100.	33,190,000
City of Palo Alto	54,540,000	100.	54,540,000
City of San Jose	460,670,000	100.	460,670,000
City of Saratoga	11,995,000	100.	11,995,000
Saratoga Fire Protection District	4,553,737	100.	4,553,737
El Camino Hospital District	142,280,000	100.	142,280,000
City Community Facilities Districts	61,540,000	100.	61,540,000
City of San Jose Special Assessment Bonds	22,466,638	100.	22,466,638
Other City 1915 Act Bonds (Estimated)	67,243,838	100.	67,243,838
Santa Clara Valley Water District Benefit Assessment District	**133,440,000**	**100.**	**133,440,000**
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$6,446,021,304

Ratios to 2011-12 Assessed Valuation:

Direct Debt ($133,440,000).....0.04%
Total Overlapping Tax and Assessment Debt 2.16%

(Continued on next page)

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DIRECT AND OVERLAPPING GENERAL FUND DEBT:	Total Debt 6/30/12	% Applicable	District's Share of Debt 6/30/12
Santa Clara County General Fund Obligations	$770,947,000	100. %	$770,947,000
Santa Clara County Pension Obligations	383,034,822	100.	383,034,822
Santa Clara County Office of Education Certificates of Participation	11,540,000	100.	11,540,000
San Jose-Evergreen Community College District Other Post-Employment Benefit Obligations	47,450,000	100.	47,450,000
West Valley-Mission Community College District General Fund Obligations	65,715,000	98.666	64,838,362
Gilroy Unified School District Certificates of Participation	31,975,000	100.	31,975,000
San Jose Unified School District School General Fund Obligations	105,171,792	100.	105,171,792
Santa Clara Unified School District Certificates of Participation	12,980,000	100.	12,980,000
East Side Union High School District Benefit Obligations	31,405,000	100.	31,405,000
Alum Rock Union School District Certificates of Participation	28,000,000	100.	28,000,000
Other School District General Fund Obligations	72,076,514	1.175-100.	70,106,110
City of Cupertino Certificates of Participation	43,940,000	100.	43,940,000
City of Gilroy Certificates of Participation	46,655,000	100.	46,655,000
City of Mountain View General Fund Obligations	13,750,000	100.	13,750,000
City of San Jose General Fund Obligations	788,089,423	100.	788,089,412
City of Santa Clara General Fund Obligations	40,390,000	100.	40,390,000
City of Sunnyvale General Fund Obligations	24,695,000	100.	24,695,000
Other City General Fund Obligations	61,540,843	100.	61,540,843
Santa Clara County Vector Control District Certificates of Participation	3,630,000	100.	3,630,000
Midpeninsula Regional Park District General Fund Obligations	138,474,717	69.237	95,875,740
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			$2,676,014,081
Less: City of Mountain View Certificates of Participation (100% supported from tax increment revenues)			10,065,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			$2,665,949,081
TOTAL DIRECT DEBT			**$133,440,000**
TOTAL GROSS COMBINED OVERLAPPING DEBT			$8,988,595,385
TOTAL NET COMBINED OVERLAPPING DEBT			$8,978,530,385
GROSS COMBINED TOTAL DEBT			$9,122,035,385 (1)
NET COMBINED TOTAL DEBT			$9,111,970,385

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to Adjusted Assessed Valuation:
Gross Combined Total Debt 3.40%
Net Combined Total Debt.....3.40%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12: $0

Source: *Prepared for the Santa Clara Valley Water District by California Municipal Statistics, Inc.*

HISTORICAL OPERATING RESULTS

The following table summarizes the District's combined revenues and debt service coverage for flood control funds for the five Fiscal Years ended June 30, 2011. These results have been derived from the District's financial statements but exclude certain non-cash items and include certain other adjustments. The revenues for the Fiscal Years ended June 30, 2007 through 2011 shown are derived from the General Purpose Financial Statements of the District. The General Purpose Financial Statements of the District for the year ended June 30, 2011, included in Appendix A to this Official Statement have been audited by Brown Armstrong, independent auditors, as stated in their report upon such General Purpose Financial Statements. The following table should be read in conjunction with such General Purpose Financial Statements, including the notes contained therein. The following table has not been audited by the District's independent auditor.

Flood Control System
Historical Operating Results
Combined Statement Of Revenues
And Debt Service Coverage For Fiscal Years Ending June 30
(Dollars in Thousands)

	2007	*2008*	*2009*	*2010*	*2011*
Flood Control System Revenues:					
Benefit Assessment, gross[1]	$ 19,407	$ 18,047	$19,450	$ 19,420	$ 19,284
1% property tax allocated to Flood Control Zones and Stream Stewardship	44,677	48,012	50,660	45,010	47,567
Investment income[2]	4,206	5,678	5,137	2,671	1,099
Rental income	1,377	1,236	1,157	1,137	1,139
Other	310	446	277	273	269
Total Flood Control System Revenues	$ 69,977	$ 73,419	$76,681	$ 68,511	$ 69,358
Debt Service:					
1994 Installment Payments[3]	$ 9,878	$ 9,617	$ 9,837	$ 9,921	$ 9,890
1995 Installment Payments[4]	5,334	4,640	5,759	5,757	5,761
Total Debt Service	$ 15,212	$ 14,257	$ 15,596	$ 15,678	$ 15,651
Coverage:					
Total Flood Control System Revenues over Total Debt Service[5]	4.60	5.15	4.92	4.37	4.43

(1) In accordance with voter authorizations, Benefit Assessments set at 125% of gross debt service allocable to flood control projects starting in Fiscal Year 2001. Benefit Assessment includes total Benefit Assessments collected before deduction of County collection fee.

(2) Investment income has decreased for Fiscal Years 2009 through 2011 as a result of a decrease in interest rates received by the District on investments.

(3) Corresponds to the 2003A Certificates and 2004A Certificates. Excludes the portion of 1994 Installment Payments allocable to the District General Fund which is not payable from Benefit Assessments.

(4) Corresponds to the 2007A Certificates.

(5) Coverage may be higher than coverage included in the supplemental information contained in the District's General Purpose Financial Statements as a result of the inclusion of investment income which constitutes Flood Control System Revenues.

Source: Santa Clara Valley Water District.

PROJECTED OPERATING RESULTS

Projected Operating Results

The table of projected District revenues for the current and next four fiscal years presented below has been prepared by the District and reflects certain significant assumptions concerning future events and circumstances. The financial forecast represents the District's estimate of projected financial results for the period based upon its judgment as of the date of this Official Statement, the time of this forecast, of the most probable occurrence of certain important future events and upon certain information provided to it. The assumptions for operating revenue and debt service are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

Flood Control System
Projected Operating Results
Combined Statement Of Revenues
And Debt Service Coverage For Fiscal Year Ending June 30
(Dollars in Thousands)

	2012	*2013*	*2014*	*2015*	*2016*
Flood Control System Revenues:					
Benefit Assessment[(1)]	19,341	19,376	16,312	16,241	14,927
District's share of County 1% property tax[(2)]	45,050	46,000	46,345	46,693	47,043
Investment income[(3)]	1,167	729	610	677	898
Rental income[(4)]	1,100	1,100	1,133	1,167	1,202
Other	1,390	1,265	721	1,243	765
Total Flood Control System Revenues	68,048	68,470	65,121	66,021	64,835
Debt Service:					
1994 Installment Payments[(5)]	9,935	9,967	7,511	7,453	6,407
1995 Installment Payments[(6)]	5,759	5,757	5,761	5,762	5,757
Total Debt Service	15,694	15,723	13,272	13,215	12,164
Coverage:					
Total Flood Control System Revenues over Total Debt Service	4.34	4.35	4.91	5.00	5.33

(1) Equal to 125% of Maximum Annual Debt Service. Amount includes total Benefit Assessments collected before deduction of County collection fee. Benefit Assessments are projected to decrease in accordance with the current amortization schedule for the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement.
(2) Projected to increase 0.75% each fiscal year following Fiscal Year 2012.
(3) Projected interest earnings rates range from 0.7% in Fiscal Year 2012 to 2% per annum in Fiscal Year 2016.
(4) Rental income projected to increase at approximately 3% per annum.
(5) Corresponds to the 2003A Certificates, the 2004A Certificates and the 2012A Certificates. Excludes portion of 1994 Installment Payments allocable to the District General Fund which is not payable from Benefit Assessments.
(6) Corresponds to the 2007A Certificates.

Source: Santa Clara Valley Water District.

THE CORPORATION

The Santa Clara Valley Water District Public Facilities Financing Corporation is a nonprofit public benefit corporation formed December 21, 1987 under the California Nonprofit Public Benefit Corporation Law. The specific and primary purpose of the corporation is to provide assistance to the District in financing the acquisition, design, construction, improvement, and installation of public facilities.

In order to carry out its specific purpose, the Corporation has all powers conferred upon nonprofit public benefit corporations of the State of California. Under its articles of incorporation, the Corporation may never engage in any activity other than those activities incidental to and for the purpose of carrying out the primary purpose for which it was formed.

The board of directors of the Corporation currently consists of five positions who are approved by the Board. The offices of president, vice president, and chief financial officer are members of the Corporation board and are selected by vote of the Corporation board. The president serves as chief executive officer of the Corporation, and may sign and execute, in the name of the Corporation, deeds, mortgages, leases, bonds, contracts, and other instruments duly authorized by the board. The vice president may perform the duties of the president in the event of the absence or disability of the President. The chief financial officer is in charge of all funds of the Corporation.

The members of the board of directors of the Corporation are David Vanni, Anthony Bennetti, Steve Mullen and Maria Oberg. One vacancy exists on the board of directors as a result of the recent resignation of Vincent Garrod. Mr. Garrod had been serving as the Corporation's President. The Vice President of the Corporation, Mr. Vanni, is currently discharging the duties of the President in accordance with the Corporation's bylaws. The Corporation Board has appointed the Clerk of the Board of Directors of the District to serve as the Secretary of the Corporation.

CERTAIN LIMITATIONS ON TAXES

Article XIII A of the California Constitution

The taxing powers of California public agencies are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum ad valorem tax on real property to one percent of "full cash value" which is defined as "the County Assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year or reduction in the consumer price index, or comparable local data, or declining property value caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county within the State is required to levy the ad valorem tax permitted by Article XIII A and to distribute the proceeds to local agencies, including special districts such as the District. Allocation of property tax revenue to the District is governed by state law.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership end two percent annual value growth) is allocated on the basis of situs among the jurisdictions that serve the tax rate areas within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenues from tax areas to such entities may be affected by the establishment of redevelopment area by redevelopment agencies which, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

In recent years the allocation of Proposition 13 property taxes to local agencies has been revised such that a portion of property tax revenue has been diverted away from special districts, such as the District, to school districts. See the caption "THE DISTRICT—1% Property Tax Moneys." It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of 1 percent Santa Clara County property tax levy paid to the District. In the opinion of District management, any such legislation would not have an adverse effect on its ability to make the 1994 Installment Payments and the 1995 Installment Payments under the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement, respectively.

Article XIIIB

Article XIII B of the California Constitution limits the annual appropriations of proceeds of taxes of State and local governmental entities to the amount of appropriations of the entity for the prior Fiscal Year, as adjusted for changes in the cost of living, changes in population, and changes in services rendered by the entity.

Under California law, any fee which exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIII A must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the District's Flood Control Benefit Assessment user rates or fees were determined by a court to exceed the reasonable cost of providing service, the District would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. The reasonable cost of providing flood control services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees will not be special taxes if they approximate the reasonable cost of providing flood control services, including the cost constructing the capital improvements contemplated by the local agency imposing the fee.

Proposition 218

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIIC and Article XIIID to the State Constitution. According to the "Title and Summary" of the Initiative prepared by the State Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Article XIIID. Article XIIID defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property ownership." Article XIIID further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to

be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a "fee" or "charge" as defined in Article XIIID, the local government's ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIIID includes a number of limitations applicable to existing fees and charges including provisions to the effect that: (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIIID established procedural requirements for the imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel.

The existing Flood Control Benefit Assessments are not subject to the requirements of Article XIIID as the Flood Control Benefit Assessments were approved by voters prior to the adoption of Article XIIID.

Article XIIID conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIIID defines "fee" or "charge" to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property related service." One of the requirements of Article XIIID is that before a property-related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was generally believed that Article XIIID did not apply to charges for water services that are "primarily based on the amount consumed" (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The State Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) (the "*Bighorn* Case"), however, that fees for ongoing water service through an existing connection were property-related fees and charges.

The District does not currently expect to impose a new fee or charge or increase any fee or charge relating to the Flood Control System.

Article XIIIC. Article XIIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIIC does not define the terms "local tax," "assessment," "fee" or "charge." The California Court of Appeal for the Fourth Appellate District in the case of *Bighorn-Desert View Water Agency v. Beringson*, 1114 Cal. App.4th 1213 (2004), held that the initiative power described in Article XIIIC applies only to the local

taxes, assessments, fees and charges governed by Article XIIID. In an opinion rendered in April 2004, the California Supreme Court in *Bighorn-Desert View Water Agency v. Beringson* granted review and transferred the matter to the California Court of Appeal for the Fourth Appellate District with directions to vacate its decision and to reconsider the cause in light of the decision in *Richmond et al. v. Shasta Community Services District*. On reconsideration of the matter, the California Court of Appeal for the Fourth Appellate District reaffirmed its prior holding. On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. To the District's knowledge, there have been no decisions applying Article XIIIC to voter approved assessments such as the Flood Control Benefit Assessments. As a result, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2012A Certificates. Remedies available to beneficial owners of the 2012A Certificates in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

In addition to the specific limitations on remedies contained in the 1994 Installment Purchase Agreement, the rights and obligations with respect to the 2012A Certificates, the 1994 Installment Purchase Agreement and the 2012 Trust Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Special Counsel, the form of which is attached as Appendix d hereto, will be similarly qualified.

Future Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID were adopted as a measure that qualified for the ballot pursuant to the State's initiative process. From time to time other initiatives could be proposed and adopted affecting the District's revenues or ability to increase revenues.

CERTAIN LIMITATIONS ON RIGHTS AND OBLIGATIONS

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2012A Certificates are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Special Counsel (the form of which is attached as Appendix D), will be similarly qualified.

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Agreement, dated the date of delivery of the 2012A Certificates (the "Continuing Disclosure Agreement") for the benefit of the holders and beneficial owners of the 2012A Certificates to provide certain financial information and operating data relating to the District by not later than April 1 in each year commencing April 1, 2013, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of material events will be filed by the District with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is set forth in Appendix E—"FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Section (b)(5) of Rule 15c2 12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"). The District has not failed

to comply with the terms of its existing continuing disclosure agreements in the last five years in any material respect.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of the 1994 Installment Payment constituting interest is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of the 1994 Installment Payment constituting interest is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, the portion of the 1994 Installment Payment constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

Special Counsel's opinion as to the exclusion from gross income of the portion of the 1994 Installment Payment constituting interest is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the 2012A Certificates to assure that the portion of the 1994 Installment Payment constituting interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of the 1994 Installment Payment constituting interest to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the 2012A Certificates. The District has covenanted to comply with all such requirements.

The amount by which a 2012A Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2012A Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2012A Certificate Owner's basis in the applicable 2012A Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2012A Certificate Owner realizing a taxable gain when a 2012A Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2012A Certificate to the Owner. Purchasers of the 2012A Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2012A Certificates will be selected for audit by the IRS. It is also possible that the market value of the 2012A Certificates might be affected as a result of such an audit of the 2012A Certificates (or by an audit of similar bonds).

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The 2012 Trust Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the exclusion from gross income of interest for federal income tax purposes with respect to any 2012A Certificate if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Special Counsel has rendered an opinion that the portion of the 1994 Installment Payment constituting interest is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the 2012A Certificates and the

accrual or receipt of the portion of the 1994 Installment Payment constituting interest may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2012A Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the 2012A Certificates.

RATINGS

The District has received from Fitch Ratings, Inc. ("Fitch") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") ratings on the 2012A Certificates of "AAA" and "AA+," respectively.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, respectively. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2012A Certificates.

UNDERWRITING

The 2012A Certificates were sold by competitive bid on November 13, 2012. J.P. Morgan Securities LLC was the successful bidder at such bid and received the award of the 2012A Certificates in accordance with the Official Notice of Sale.

FINANCIAL ADVISOR

The District has retained Public Resources Advisory Group, Inc. of Los Angeles, California, as financial advisor (the "Financial Advisor") in connection with the execution and delivery of the 2012A Certificates. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Resources Advisory Group is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Financial Advisor is contingent upon the execution and delivery of the 2012A Certificates.

NO LITIGATION

No litigation is pending or, to the knowledge of the District, threatened, in any way questioning or affecting the validity or enforceability of the 2012A Certificates, the 1994 Installment Purchase Agreement or the 2012 Escrow Agreement. Neither the creation, organization or existence of the District, nor the title of the present directors or officers of the District to their respective office is being contested.

While the District has certain ongoing litigation with respect to the Water Utility System, District Counsel does not believe such litigation would have any material adverse affect on the finances or operation of the Flood Control System.

The District is engaged in routine litigation incidental to the conduct of its business. In the opinion of the District's District Counsel, Stan Yamamoto, Esq., the aggregate amounts recoverable against the District, taking into account insurance coverage, would not have any material adverse affect on the finances or operation of the Flood Control System.

CERTAIN LEGAL MATTERS

Special Counsel will render an opinion substantially in the form set forth in Appendix D hereto. Copies of such opinions will be furnished to the Underwriter at the time of delivery of the 2012A Certificates. Certain legal matters will be passed upon for the District and the Corporation by District Counsel to the District, Stan Yamamoto, Esq., and for the Trustee by its counsel. The payment of the fees of Special Counsel is contingent upon the execution and delivery of the 2012A Certificates.

MISCELLANEOUS

This Official Statement has been duly approved, executed and delivered by the District and the Corporation. Copies of this Official Statement may be obtained from the Chief Financial Officer of the District at the address indicated on the inside cover page of this Official Statement.

Financial Statements of the District, a summary of the principal legal documents to be adopted or executed in connection with the offering of the 2012A Certificates, information relating to the Book-Entry Only System relating to the 2012A Certificates, the Form of Opinion of Special Counsel and certain selected financial information relating to the District are attached hereto as Appendices. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

The delivery of this Official Statement, including the Appendices and other information herein, has been duly authorized by the District.

SANTA CLARA VALLEY WATER DISTRICT

By: /s/ Jesus Nava
Acting Chief Executive Officer

Attest:

/s/ Michelle L. King
Clerk of the Board of Directors

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APPENDIX A

AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2011









To be valued by the community as a fiscally responsible water resources agency

Santa Clara Valley Water District

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Santa Clara Valley Water District

San Jose, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

Prepared by the General Accounting Services Unit

Najon Chu, Chief Financial Officer
Anita Ong, Acting Financial Services Unit Manager

Santa Clara Valley
Water District



SANTA CLARA VALLEY WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2011

Table of Contents

Introductory Section

Letter of Transmittal 1
GFOA Certificate of Achievement 12
Organizational Chart 13
Board of Directors 14

Financial Section

Independent Auditor's Report 15
Management's Discussion and Analysis (Required Supplementary Information) 17
BASIC FINANCIAL STATEMENTS:
Government-wide Financial Statements:
- Statement of Net Assets 36
- Statement of Activities 37

Fund Financial Statements:
- Balance Sheet – Governmental Funds 38
- Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets 40
- Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds 42
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities . 44
- Statement of Net Assets – Proprietary Funds 45
- Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds 46
- Statement of Cash Flows - Proprietary Funds 47
- Statement of Fiduciary Net Assets - Agency Funds 48

Notes to Basic Financial Statements:

(1) The Financial Reporting Entity 49
(2) Summary of Significant Accounting Policies 50
(3) Cash and Investments 56
(4) Reimbursement of Capital Costs 63
(5) Investment Income 64
(6) Capital Assets 65
(7) Short-Term and Long-Term Liabilities 67
(8) Property Taxes and Benefit Assessments 73
(9) Proposition 1A Borrowing By The State of California 74
(10) Fund Balances 75
(11) Net Assets 76
(12) Employees' Retirement Plan 78
(13) Post-Employment Benefits 79
(14) Risk Management 82
(15) Advances To and From Other Funds 83
(16) Transfers In and Out 83
(17) Commitments 84
(18) Contingencies 85

Required Supplementary Information

Schedule of Funding Progress – Other Post Employment Benefit Plan 91

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Budgeted Governmental Funds 92

Notes to Required Supplementary Information 94

Supplemental Information

Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances 98

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual 100

Water Enterprise Fund:

Schedule of Revenues, Expenses and Changes in Fund Net Assets – Budget and Actual 106

Internal Service Funds:

Combining Statement of Net Assets 109

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets 110

Combining Statement of Cash Flows 111

Schedule of Revenues, Expenses and Changes in Fund Net Assets - Budget and Actual 112

Agency Funds:

Combining Statement of Changes in Assets and Liabilities 115

Capital Assets Used in the Operation of Governmental Funds:

Schedule By Source 117

Schedule By Function and Activity 118

Schedule of Changes By Function and Activity 119

Statistical Section

Financial Trends:

Net Assets by Component 122

Change in Net Assets 124

Fund Balances of Governmental Funds 126

Changes in Fund Balances of Governmental Funds 128

Revenue Capacity:

Water Sales by Category 130

Principal Water Sales Customers 131

Water Enterprise Rates Summary 132

Assessed and Estimated Actual Value of Property 134

Property Tax Rates - Direct and Overlapping Governments 135

Principal Property Tax Payers 136

Debt Capacity:
Ratio of General Bonded Debt Outstanding 137
Ratio of Outstanding Debt by Type 138
Computation of Direct and Overlapping Debt 140
Revenue Bond Coverage 141
Computation of District Act Debt Margin 142
Demographic and Economic Information:
Demographic and Economic Statistics 143
Principal Employers 144
Operating Information:
Full-time Equivalent District Employees by Function/Program 145
Operating Indicators by Function/Program 146
Capital Asset Statistics by Function/Program 147
Flood Control System Historical Operating Results 148

Introductory Section

Comprehensive Annual Financial Report









To be valued by the community as a fiscally responsible water resources agency

Santa Clara Valley Water District

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November 23, 2011

TO THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Santa Clara Valley Water District (District) for the fiscal year ended June 30, 2011. The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's financial statements have been audited by Brown Armstrong Accountancy Corporation, a firm of licensed certified public accountants. The purpose of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2011, are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the District is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements but also on the District's internal controls and compliance over the administration of federal awards. The single audit review is typically completed after the audit of the financial statements and will be issued separately for the Board's acceptance.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditor.

District Profile

The mission of the District is to provide for a healthy, safe and enhanced quality of living in Santa Clara County through watershed stewardship and comprehensive management of water resources in a practical, cost-effective and environmentally sensitive manner for current and future generations.

The District traces its origins to the Santa Clara Valley Water Conservation District, approved by north county voters in 1929. Voters elsewhere in the County eventually formed similar agencies that later consolidated with the original District. Today's District represents a consolidation of four agencies. In 1954, the Central Santa Clara Valley Water Conservation District was annexed to the Santa Clara Valley Water Conservation District. With the 1968 merger of the Santa Clara Valley Water Conservation District and the Santa Clara County Flood Control and Water District, the agency adopted dual missions of providing water supply and flood protection. The South Santa Clara Valley Water Conservation District was renamed the Gavilan Water District in 1980, and upon south county voter approval, was annexed to the Santa Clara Valley Water District in 1987. The merger's catalyst was the belief that a coordinated operation of the County's water supply and flood control systems would result in optimum water resource management.

Throughout its history of consolidations, the District has maintained a relationship with Santa Clara County. In 1952, County Supervisors initiated the valley's first flood protection program; they later expanded their efforts to include water importation. In 1968, the District and County decided to merge their water functions, and the governing boards of both agencies agreed the County supervisors would have a role in reviewing and approving the water district's annual budget. On September 14, 2006 Assembly Bill 2435 was passed (effective January 1, 2007) which ends the County's oversight of the District's budget and other procedural holdovers from the 1968 merger.

The Santa Clara Valley Water District (the District) operates as a State of California special district under the authority of the District Act (Stats. 1951, c.1405, p.3336, urgency, eff. July 10, 1951, as amended Stats. 1963, c.1941, p.3993, 1). The District is the primary water resources agency for Santa Clara County, California. It is the largest multi-purpose water supply, watershed stewardship, and flood management special district in California. It acts not only as the county's water wholesaler but also as its flood protection agency and is the steward for its streams and creeks, underground aquifers and district-built reservoirs.

The District Act governs the structure, function and operations of the District's Board of Directors (Board), which governs the District and directs the Chief Executive Officer. On October 11, 2009, Governor Arnold Schwarzenegger signed into law Assembly Bill 466 (AB466) to amend the District Act. AB466 replaced the former Board structure (five elected/two appointed at-large members) with one in which all seven members would be elected from new districts created through a formal redistricting process. A Redistricting Advisory Committee was formed to draw the District boundaries. On May 14, 2010, the Board of Directors officially adopted a new map following testimony from the public, consideration of past testimony during Redistricting Advisory Committee meetings, and consideration of all communications and letters received from the public. A formal election was held for four of the seven board members on November 2, 2010. As required by state law, the District must redraw its boundaries to reflect 2010 Census results. This process must be completed by the end of 2011.

The District is the primary water resources agency for 1.8 million residents of the Santa Clara County. It encompasses all of the county's approximately 1,300 square miles and serves the area's 15 cities: Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale. The District also serves the unincorporated areas of the county.

The District sells treated water to 13 water retail companies and cities that service communities within the County via their own distribution systems. There are also private well owners in the County. This demand requires the District to operate and maintain a complex delivery and treatment system that includes 3 water treatment plants, 10 local reservoirs and dams, a state-of-the-art water quality laboratory, dozens of groundwater recharge basin, 3 pump stations and 153 miles of pipelines. Water supplies include local surface water and groundwater, imported water, and recycled water. Water conservation is also an important part of the water supply mix because it offsets water demands.

To ensure an adequate and reliable supply of high-quality water, the District has partnered with cities and water retailers in the county to develop recycled water supplies. About four percent of the county's total water use currently consists of recycled water, limited primarily to landscaping and industrial uses. Recycled water use is expected to expand in coming years. In 2010, the District's Board of Directors approved agreements with the City of San Jose to partner and build a facility to produce about ten million gallons per day of highly purified water. The advanced water treatment facility is estimated to be completed in early 2012.

As the primary wholesale water supplier in Santa Clara County, the District is dedicated to assuring a reliable supply of healthy and clean drinking water. The District provides stream stewardship that encompasses managing flood and storm waters within the County and protecting watersheds and riparian corridors, thereby providing for public safety, and the protection of property and the natural environment along creeks and rivers, and at the edge of the San Francisco Bay. The District makes every effort to provide clean safe water in our creeks and bays; to provide, enhance, and restore creek and bay ecosystems, and to promote additional open space, trails and parks along creeks and in the watersheds.

Factors Affecting Financial Condition

Local Economy

The Santa Clara County is located at the southern end of San Francisco Bay that measures approximately 1,312 square miles. The northwestern portion of the County is part of an area referred to as Silicon Valley due to the domination and concentration of technology sector. Compared to the United States, information products and services is almost five times more concentrated in Silicon Valley and includes export-oriented industry such as computer software and hardware, internet and information services, semiconductor and electronic components, manufacturing, as well as communication services and equipment manufacturing.[1]

With its diverse economic base and globally-oriented high technology industries, the Santa Clara County's unemployment rate was stable and low, from 3.4 percent in June, 1999 to 5.9 percent in June, 2008[2]. However, in 2009 and 2010, the Santa Clara County lost tens of thousands of jobs, absorbed thousands of home foreclosures, and experienced decline in real per capita income. While the region was slower to report employment in 2008, job losses in Santa Clara County picked up its pace over the last two years, with its unemployment rates going up as much as 11.5 percent in June, 2009 and 11.2 percent in June, 2010. In June 2011, the Santa Clara County's unemployment improved with a rate at 10.3 percent, lower than the State of California's rate of 11.8 percent. The unemployment rate decreased over the year in 24 California counties, with Santa Clara County showing the largest rate decrease[3].

The economy worsened in much of the country during the first half of year 2011 due to high unemployment, weak home sales, weak consumer spending and tight credits. However, thanks to a flood of venture capital and angel investor dollars, employment rates in certain sectors of Silicon Valley have seen a dramatic increase in recent months, creating a booming job market for tech wizards. The hottest jobs are those in cloud computing servers, mobile devices, standard IT, and new social media—companies that are providing websites as a tool for commerce.[4]

The Santa Clara County Assessor announced in July, 2010 that the net assessed value of all real and business property declined by 2.43 percent or $7.4 billion to $296.47 billion. The District projected a 5% decrease in its property tax revenue for the next fiscal year 2011-12 with the assumption that the County has been unable to process thousands of property value reassessments and the bottoming out of the commercial real estate market[5].

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[1]Silicon Valley Economic Development Alliance Website
[2]State of California, Employment Development Department, Labor Market Information Division
[3]State of California, California Labor Market Review – June, 2011
[4]Huffington Post Business, July 8, 2011
[5]Santa Clara Water District – FY2011-12 Operating and Capital Budget

Long-term Financial Planning

The Board sets policy direction via a system of Policy Governance. Through policies, the Board establishes the District's mission as well as goals and outcomes to be achieved for the good of the public. The Ends Policies describe the accomplishments the Board wants to achieve for its customers, the citizens of Santa Clara County. These include projects that will continue to ensure a safe, reliable source of water; flood prevention, and environmental stewardship. The Chief Executive Officer (CEO) directs District staff in interpreting these policies and aligns resources to carry them out[5].

The District plans, manages and carries out work to meet policies established by its Board of Directors. For its fiscal year 2011-12 budget, the District funds activities that carry out its mission through the following three highest-level policies:

- E2 - There is reliable, clean water supply for current and future generations
- E3 - There is a healthy and safe environment for residents, businesses, and visitors, as well as for future generations.
- E4 - There is water resources stewardship to protect and enhance watersheds and natural resources and to improve the quality of life in Santa Clara County.

The District's largest revenue source is the sale of water, acting as a wholesaler for numerous water supply retailers in Santa Clara County. Water sales for fiscal year 2010-11 were $121 million. Based on staff's recommendation to the District's Board of Directors for water charges in the North County and South County zones of benefit, the adopted fiscal year 2011-12 groundwater production charges reflect a 9.4% and 3.6% increase for the North County (Zone W-2) and South County (Zone W-5), respectively, relative to fiscal year 2010-11. The revenue projection assumes water demand volume of 257,000 acre-feet, which reflects a modest 2.8% increase relative to the fiscal year 2009-10 actual water usage.[5]

The Five-Year Capital Improvement Plan (CIP) includes a total of 90 capital projects with an estimated cost of over $2.072 billion. The District has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies. Of the $2.072 billion total funding, $567 million is expected from the District's various partners, such as the U.S. Army Corps of Engineers, and $1.505 billion from the District. Of the $567 million that is expected from the District's partners, $208 million is advanced by the District and reimbursed later. This $208 million is included in the CIP, and increases the District's total funding requirements from $1.505 billion to $1.713 billion to ensure that the District has adequate funding to advance the reimbursement.[6]

The District's Flood Protection and Stream Stewardship Program take a watershed-based approach to nature resources management. Its cornerstone, the 15-year Clean, Safe, Creeks and Natural Flood Protection Plan, was developed through a dynamic, interactive, community based process and was approved by county voters in November 2000, along with a special tax to help fund the plan's projects. The 15-year pay-as-you-go plan is a major component of the District's overall flood protection and stream stewardship plan. For fiscal year 2011-12, the proposed budget includes $24.2 million for this capital program.

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[6] Santa Clara Valley Water District – FY2012-16 Capital Improvement Program

Relevant Financial Policies

End of Year Balances

The District policies for end-of-year balance re-appropriations are as follows:

- Any remaining appropriation balances at the end of the fiscal year for capital projects are annually re-appropriated for continued use in those same projects in the following fiscal year. These amounts shall be consistent with the planned expenditure schedule identified in the 5-year CIP;
- Any variances at the end of the current fiscal year in Operating Reserves, Contingent Liability Reserves, Capital Replacement Reserves, and Future Years' Capital Reserves from those estimated in the budget not otherwise re-appropriated above shall result in corresponding adjustments to the estimated reserve appropriations in accordance with District Reserve policy.

Cash Management

The District's adopted investment policy adheres to the provisions of the California Government Code and, in accordance with the code, is reviewed and revised as appropriate. Among the primary objectives stated in the policy are the maintenance of safety, liquidity, and yield (in that specific order).

Debt Management

The District has restricted long-term borrowing to the funding of capital improvement projects and equipment. The term of the debt does not exceed the expected useful life of the assets. The District also maintains a commercial paper program for funding the Water Utility capital projects. Commercial papers were used during the early phases of construction; long-term debt, matching the useful life of the asset, was issued to replace the commercial papers.

Budgetary Controls

The District maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Plan. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories, the operating budget (consisting of total operations, operating projects, and debt service) and the capital budget (consisting of capital project expenditures). The District also maintains an encumbrance accounting system as one process to accomplishing budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For governmental funds, this comparison is presented on pages 92-93 as part of required supplementary information and selected watershed activities on pages 100-103 as part of supplemental information. For proprietary funds, this comparison is presented on pages 106-107 and 112-113 as part of the combining and individual fund statements and schedules.

The guidelines used by the District in developing this formal budget process are those recommended by the National Advisory Council on State and Local Budgeting, and the Government Finance Officers Association (GFOA).

Reserve Requirements

The District's financial policies establish the levels at which reserves shall be maintained. District reserve policies address the need for both operating and capital reserves, and funding of contingency and future liabilities.

Major Initiatives

Highlights of activities and accomplishments for the fiscal year ended June 30, 2011 include the following:[7]

- In July, 2010, the District signed a collaboration agreement with the Evergreen Community College-Workforce Institute to allow the placement of six students to work at the District from July 6, 2010 to August 11, 2010. The students are funded from a grant from the State of California South Bay Green Jobs Corps Program. The project is being conducted by the Workforce Institute, San Jose/Evergreen Community College which received a grant from the American Recovery and Reinvestment Act, administered through the state. The District and San Jose Water Company were the participants from water utilities. The program focuses on careers in green businesses, specifically in water utilities, green construction, green waste and energy efficiency.

- During its July 19, 2010 meeting, the Board voted to expand the District's long-standing youth education program and to develop a new youth stewardship commission. The expansion will allow for the District to meet all anticipated requests from schools for water education workshops in the 2010-11 school year.

  The District's Water Education Program reaches early childhood elementary, middle, high school, and college-aged students with age-appropriate classroom presentation and tours, and teacher in-service trainings. The program serves a diverse population throughout Santa Clara County, and is aligned with state instructional standards.

  The Board also approved the establishment of a youth stewardship commission, targeting high school students with an on-site career development program. The commission would encourage youth to explore and pursue careers in the water industry and foster stewardship and responsibility for natural resources. On January 24, 2011, the Youth Stewardship Commission held its first meeting with 30 high school students receiving an overview of the District's work.

  In November, 2010, the Board of Directors has created another opportunity for youth representation on selected board advisory committees, to engage the youth on the

[7] Santa Clara Valley Water District Newsletters, Santa Clara Valley Water District CEO Bulletins

importance of water supply conservation, environmental stewardship, and flood protection issues for the future. There are currently nine advisory committees, dealing with issues related to flood control and watersheds, and committees that engage the agricultural, landscaping, and environmental communities. The Board of Directors will seek to appoint interested youth to selected committees, where appropriate.

- On September 13, 2010, the California Special Districts Association (CSDA) published an article highlighting members who have taken proactive steps to provide transparency in the area of Public Records Requests. CSDA highlighted the District's Request for Public Records process as a model of other agencies. The District was among two agencies recognized for "dutifully complying with the spirit of the law, openly and efficiently responding to questions, concerns, or scrutiny from the public and facilitating a uniform accounting of the records that have been requested in the history of the agency."

- In September 2010, the District hosted two workshops for flood management professionals. On September 15, 2010, the District hosted a one-day workshop on the Federal Emergency Management Agency's (FEMA) Community Rating System (CRS). The CRS is a voluntary incentive program that recognizes and encourages community floodplain management activities that exceed the minimum requirements of FEMA's National Flood Insurance Program. In CRS-participating communities, flood insurance premium rates are discounted to reflect the reduced flood risk resulting from specific community actions as defined by the program. The September workshop aimed to help communities to maintain or increase their level of participation, and may encourage additional communities to join the program.

  On September 23, 2010, the District hosted a two-hour workshop given by the Department of Water Resources (DWR) on their Pre-Season Flood Preparedness activities. The DWR workshop showcased presenters from the DWR's Flood Fight and Flood Preparation Centers, National Weather Service, California Emergency Management Agency, U.S. Army Corps of Engineers, California Department of Forestry and Fire Protection, and California Conservation Corps. The workshop offered an outlook of the upcoming flood season, and also provided an opportunity to ask questions of the represented agencies.

- Dozens of local elected officials and community leaders celebrated the beginning of construction of a new water treatment facility on October 22, 2010. The Advanced Water Treatment (AWT) facility is designed to enhance the quality of recycled water in San Jose, Santa Clara, and Milpitas. When completed in 2012, AWT facility will produce up to ten million gallons of highly purified water per day.

  In the works since 2006, the construction phase of the facility was kick-started by the success of California's congressional delegation to secure a share of federal stimulus funds. The initiation of the construction was also facilitated by a landmark 40-year agreement signed in March between the District and the City of San Jose. The agreement establishes a collaborative relationship to increase the use of recycled water in the region and promote cooperation related to the management and operation of their respective recycled water facilities and programs. The District will own and operate the new treatment facility while the City of San Jose will continue to operate the South Bay Water Recycling program which has been providing recycled water to San Jose, Milpitas, and Santa Clara customers for more than ten years.

The cost of construction for the project is $42.4 million. In addition to the federal stimulus funding of $8.25 million, the California Department of Water Resources is providing $3 million from Proposition 50 funds. The San Jose/Santa Clara Water Pollution Control Plan, which is administered by the City of San Jose, is also a major partner, providing $11 million in support, and a lease for the facility lands. The District is providing the remainder of the project cost.

- Three District board members, Rosemary Kamei, Larry Wilson, and Cy Mann were recognized for their services at the last board meeting of their terms of office on November 23, 2010. At that meeting, the Board of Directors adopted resolutions of appreciation for the three outgoing board members.

  Rosemary Kamei has served on the District board since 1993 when she was appointed to serve District 1, the largest district, representing the southern part of the Santa Clara County, including Gilroy, Morgan Hill, Los Gatos, and parts of south San Jose. In 1995, she was the first woman to be elected to the District board. Ms. Kamei has served as the board chairperson in 1995, 2002, and 2008, which included both periods of drought and major flooding events.

  Larry Wilson was elected to the board in 1995, after serving 33 years as a District employee in the roles of watermaster, hydrographer, water operations supervisor, and groundwater monitoring superintendent. He represented Santa Clara, Campbell, and West San Jose. Mr. Wilson served as board chairperson in 1999 and 2006.

  Cy Mann was appointed to the District board on February 2010 as an at-large director. During the time of his service, he worked diligently to learn about the District's programs and familiarize himself with current District efforts.

- On December 14, 2010, the District swore in four elected members to the board of directors. New board members Don Gage, Linda LeZotte, Brian Schmidt, and returning director Tony Estremera participated in a ceremonial swearing-in at the first meeting of the newly constituted board. For the first time, the District board is composed of seven elected members. Previously, two of the seven directors were appointed and represented at-large districts. In 2009, state legislation was passed to transition to a board of seven elected directors, each representing smaller geographic regions.

  Don Gage will represent District 1, which includes Gilroy, Morgan Hill, the San Jose neighborhoods of Evergreen and Silver Creek, and the rural eastern part of Santa Clara County. He brings 12 years of experience as a Santa Clara County Supervisor and served as council member and mayor of Gilroy in the 1980's and 1990's.

  Linda J. LeZotte, an environmental and land use lawyer, brings to the board nearly 30 years of legal experience, as well as eight years representing west San Jose on the San Jose City Council. She will represent residents of District 4 in Campbell, San Jose's Cambrian and Blossom Hill neighborhoods, and parts of the Santa Teresa and Almaden Valley neighborhoods.

  Brian Schmidt will represent District 7, which spans much of the western edge of the county, including Palo Alto, Los Altos, Los Altos Hills, Mountain View, Cupertino, Monte Sereno, and Los Gatos. Schmidt, who has served as both chair and vice-chair of the

District's Environmental Advisory Committee, brings eight years of experience in civic life in Santa Clara County and his background as an environmental lawyer to the board.

Serving with the four board members elected in November are three incumbent board members who will represent district with new boundaries. Director Joe Judge represents District 2; Director Richard Santos represents District 3; and Director Patrick Kwok represents District 5. On January 11, 2011, the District Board of Directors unanimously elected District 1 representative, Don Gage, to serve as boar chair for 2011. The board also elected District 4 representative, Linda J. LeZotte, as vice-chair for 2011.

- The California Sustainability Alliance has selected the Santa Clara Valley Water District for its 2010 Sustainability Showcase award. Each year, the alliance recognizes leading organization in four areas: commercial building, multifamily housing, local government, and water agencies. The District was recognized for its greenhouse gas emission reduction, water conservation, and water recycling programs. The alliance was particularly impressed with the District's strong framework for continuous improvements in fuel, energy, and water use efficiency.

- On the its microsite, www.save20gallons.org, the District has just introduced a new interactive water-saving calculator that can help people check their water usage and identify the best ways for them to save 20 gallons every day. The calculator allows microsite visitors to enter information about their water-use habits around the house, calculates how much water is being used, compares that usage against a water-efficient home, and provides simple water-saving tips, as well as information about water-conservation rebates and services offered by the District.

  The microsite is part of District's year-long endeavor on larger water conservation outreach efforts. It serves as a constant reminder to the community that even when there is a good rainfall in the county, there is a need to use water wisely. To ensure long-term water supply reliability, everyone must make conservation a way of life.

- On June 28, 2011, the District's Board of Directors authorized grant awards to 21 organizations and municipalities to implement projects that enhance the environment, protect and restore watersheds, and develop new trails. In all, more than $3.4 million in grant funding was authorized. The District's grants, combined with other public and private funding, help advance projects costing a total of $16.1 million.

  The majority of the District's grant funding is from the voter-approved Clean, Safe Creeks and Natural Flood Protection Plan and the funded projects will help achieve objectives included in the plan. The District's grant funding is broken into three grant programs: Trail and Open Space, Environmental Enhancement Implementation, and Watershed Stewardship.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Santa Clara Valley Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the fourteenth consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR represents the culmination of months of concerted team effort by diverse District staff, including team members from General Accounting Unit, Financial Planning Unit, Financial Controls Unit, Risk Management Division, Information Systems Solution Unit, Business and Customer Support Services Unit, and Office of the District Counsel. Many team members demonstrated a high degree of personal dedication and determination in producing this exemplary document.

In addition, special thanks to District staff in all groups for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Brown Armstrong Accountancy Corporation is also acknowledged for the significant technical contribution and assistance.

Special thanks goes to Anita Ong, Acting Financial Services Unit Manager; the following Accounting staff: Lilian Ramirez, Guy Canha, Fanny Chan, Leticia Rocha, Trisha Cheung, Christine Hernandez, and Ofelia Hsieh; and Chenlei Yao of the Financial Controls Unit for their talent and dedication in preparing this financial report.

Finally, we wish to express our sincere appreciation to the District's Board of Directors and management for providing policy direction and a firm foundation of support for pursuit of excellence in all realms of professional endeavors.

Najon Chu
Chief Financial Officer

Sharon Judkins
Chief Administrative Officer

Beau Goldie
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley Water District

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

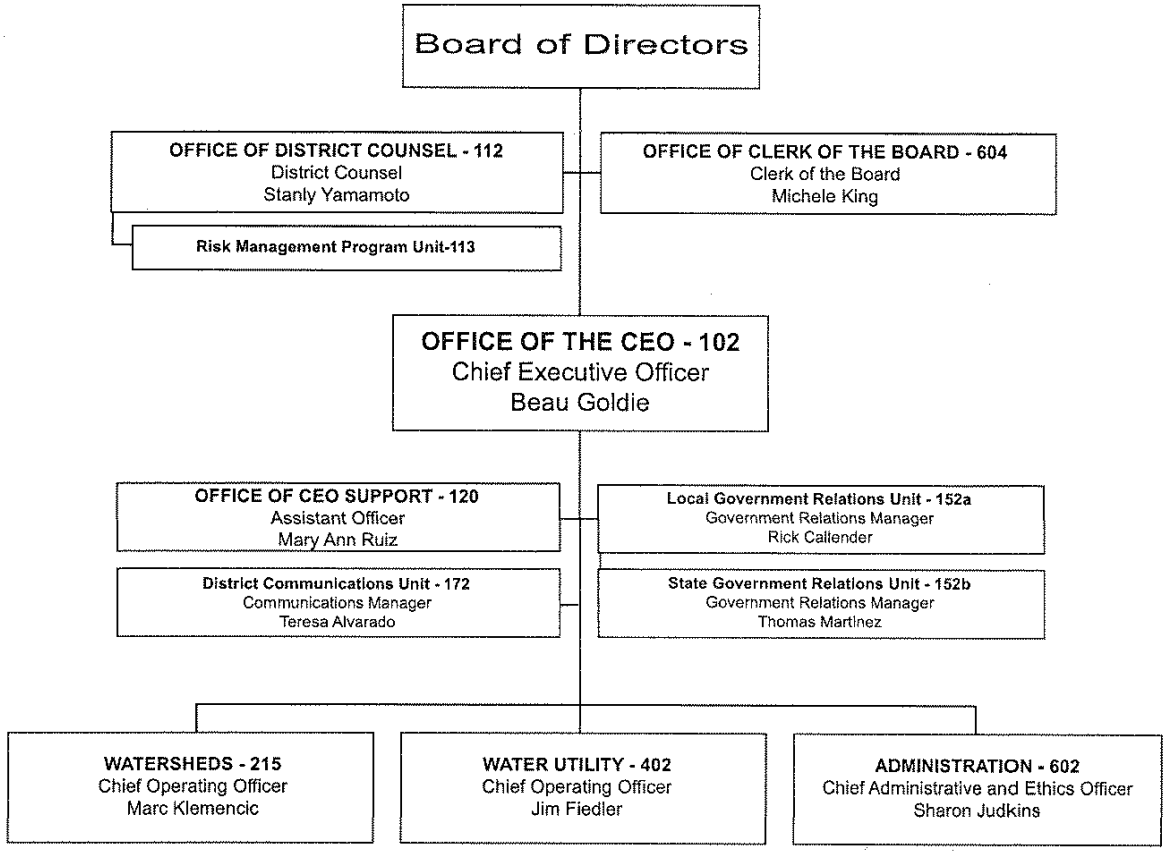


Linda C. Davidson

President

Executive Director

Santa Clara Valley Water District
Board of Directors
& Executive Management



SANTA CLARA VALLEY WATER DISTRICT
DIRECTORY OF OFFICIALS
2010 – 2011

BOARD OF DIRECTORS

Donald F. Gage, Chair	District 1
Joe Judge	District 2
Richard P. Santos	District 3
Linda J. LeZotte, Vice Chair	District 4
Patrick Kwok	District 5
Tony Estremera	District 6
Brian A. Schmidt	District 7

Financial Section

Comprehensive Annual Financial Report









To be valued by the community as a fiscally responsible water resources agency

Santa Clara Valley Water District

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors
Santa Clara Valley Water District
San Jose, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Santa Clara Valley Water District (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and other post employment benefits as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or

historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section, combining and individual major and nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
November 23, 2011

Management's Discussion and Analysis

Our discussion and analysis of the Santa Clara Valley Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- The net assets of the District were $1,858.0 million as of June 30, 2011. Of this amount, $234.3 million (unrestricted but committed and assigned net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's net assets increased by $62.7 million during the current fiscal year. The net assets of the governmental activities increased by $55.5 million and the net assets of the business-type activity by $7.2 million.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $304.1 million, an increase of $8.2 million in comparison with the prior year fund balances of $295.9 million.
- The fund balance for the general fund was $11.1 million, a decrease of $6.6 million from the prior fiscal year. Committed and assigned fund balances were $11.1 million or 100.0 percent of the total fund balance.
- The fund balances of the watershed funds were $281.0 million, increasing by $15.1 million.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by GASB Statement No. 34.

Government-wide financial statements. The government-wide financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguished functions of the District that are principally supported by taxes and intergovernmental revenues *(governmental*

activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business–type activity)*. The governmental activities of the District include general government, watershed management, debt service and construction funding. The business-type activity includes the water utility operation.

The government-wide financial statements include not only the District itself (known as the primary government), but also a legally separate Santa Clara Valley Water District Public Facilities Financing Corporation (the Corporation) for which the District is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide financing to the District under the debt issuance documents of the District. Additional information on this legally separate entity can be found in Note 1(b) in the notes to basic financial statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other special districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's projects.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statements are provided to facilitate this comparison between *governmental funds* and *governmental activities.*

Proprietary funds*.* The District maintains two-different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activity in the government-wide financial statements but provide more detail and additional information. The District uses an enterprise fund to account for its water utility operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its fleet of vehicles and computer

equipment, and for its risk management activities. The internal service funds have been included within governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 49-87 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $1,858.0 million at the end of the current fiscal year.

	Governmental Activities		Business-type Activity		Total	
	2011	2010 (Restated)	2011	2010 (Restated)	2011	2010 (Restated)
Current and other assets	$ 341,236	$ 334,186	$ 161,224	$ 188,165	$ 502,460	$ 522,351
Capital assets	1,053,888	1,014,249	736,627	706,608	1,790,515	1,720,857
Total assets	1,395,124	1,348,435	897,851	894,773	2,292,975	2,243,208
Current liabilities	13,985	15,156	16,060	17,565	30,045	32,721
Litigation claim	-	-	6,414	6,090	6,414	6,090
Long-term liabilities outstanding	167,160	174,818	231,335	234,281	398,495	409,099
Total liabilities	181,145	189,974	253,809	257,936	434,954	447,910
Net assets:						
Investment in capital assets, net of related debt	915,118	866,291	524,557	518,237	1,439,675	1,384,528
Restricted	157,221	145,370	26,824	22,944	184,045	168,314
Unrestricted	141,640	146,800	92,661	95,656	234,301	242,456
Total net assets	$ 1,213,979	$ 1,158,461	$ 644,042	$ 636,837	$ 1,858,021	$ 1,795,298

[1]Fiscal year 2009-10 net assets were restated to align with the FY2010-11 implementation of Governmental Accounting Standard number 54.

The largest portion of the District's net assets (77.5 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For governmental activities investment in capital assets, net of related debt increased by $48.8 million. Major capital projects attributing to the increase include the Lower Silver Creek,-R5-6 N. Babb to Cunningham of $8.7 million, Lower Berryessa Creek, Lower

Penitencia to Calaveras of $3.6 million, Almaden and Winfield Campus, Small Capital Improvement of $2.0 million, Pond A8 Applied Study Construction of $1.6 million, Gold Street Educational Center of $1.2 million, San Francisquito Creek Bay – Searsville Dam of $1.1 million, and $17.5 million from the Clean, Safe Creeks and Natural Flood Protection Program that was approved with passage of Measure B in November 2000.

The net increase in the investment in capital assets for business type activity was $2.0 million. Major projects contributing to this increase, less reimbursement from construction bank account - which was classified as part of the investment in capital assets, included South Bay Advanced Recycled Water Treatment Plant of $11.7 million and the ongoing major improvements to the water treatment plants.

The balance of unrestricted net assets may be used to meet the District's ongoing obligations to citizens, customers, and creditors. The District's unrestricted net assets decreased by $8.2 million or 3.4 percent, during the current fiscal year.

Santa Clara Valley Water District's Changes in Net Assets

(Dollars in Thousands)

	Governmental Activities		Business-type Activity		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	$ -	$ -	$ 121,347	$ 120,264	$ 121,347	$ 120,264
Operating grants and contributions	-	-	1,458	1,696	1,458	1,696
Capital grants and contributions	38,578	23,690	10,443	1,602	49,021	25,292
General revenues:						
Property taxes	86,217	86,852	23,181	24,241	109,398	111,093
Investment earnings	3,337	7,098	1,779	3,787	5,116	10,885
Miscellaneous	2,189	5,161	1,575	5,447	3,764	10,608
Total revenues	130,321	122,801	159,783	157,037	290,104	279,838
Expenses:						
General government	9,954	9,317	-	-	9,954	9,317
Watersheds	54,562	51,841	-	-	54,562	51,841
Interest on long-term debt	7,476	7,841	-	-	7,476	7,841
Water enterprise	-	-	155,389	155,145	155,389	155,145
Total expenses	71,992	68,999	155,389	155,145	227,381	224,144
Increase in net assets before transfers	58,329	53,802	4,394	1,892	62,723	55,694
Transfers	(2,811)	269	2,811	(269)	-	-
Increase in net assets	55,518	54,071	7,205	1,623	62,723	55,694
Net assets, beginning	1,158,461	1,104,390	636,837	635,214	1,795,298	1,739,604
Net assets, ending	$ 1,213,979	$ 1,158,461	$ 644,042	$ 636,837	$ 1,858,021	$ 1,795,298

Governmental activities. Net assets in governmental activities increased by $55.5 million over fiscal year 2009-10. Key elements of the change are as follows:

- Capital grants and contributions increased by $14.9 million or 62.8 percent due to higher reimbursement of capital costs.

- Property taxes decreased by $635 thousand or 0.1 percent due to the decrease in the assessed value of some real properties.

- Investment earnings decreased by $3.8 million or 53.0 percent due to lower interest rate and the net negative impact from the GASB 31 fair market value adjustment of $1.3 million.

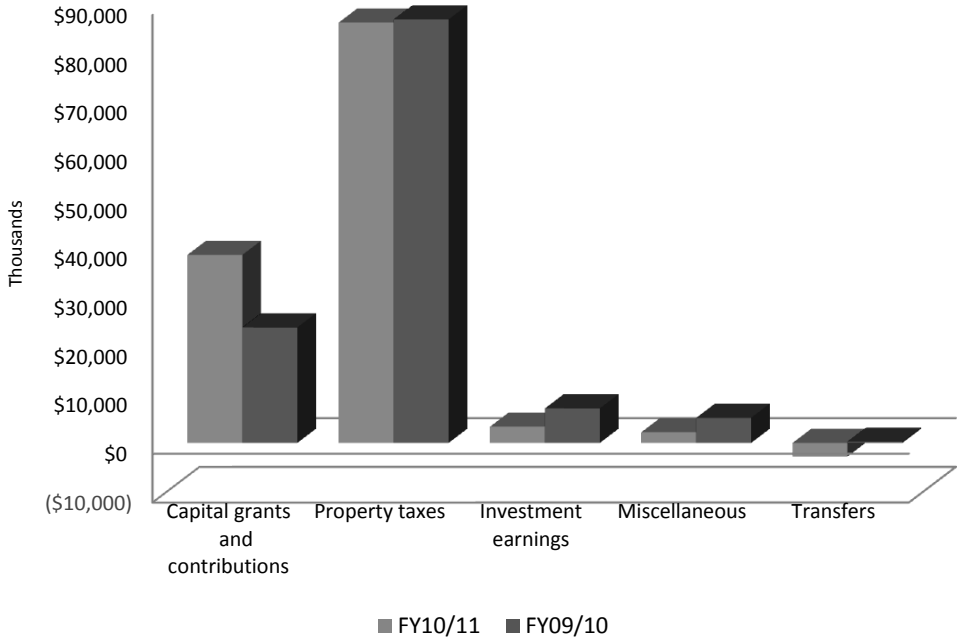
- Miscellaneous revenues decreased by $3.0 million or 57.6 percent due to a one-time revenue earned in fiscal year 2009-10 that was not available in the current year. In fiscal year 2009-10, the District received reimbursement of litigation expenses incurred in prior years in connection with the Hartford/Cinnabar Mines settlement case involving clean up of mercury contamination in the streams.

- General government expenditures increased by $3.0 million or 4.3 percent. General Fund expenditures increased by $637 thousand or 6.8 percent due to higher health and dental premiums, OPEB expense, and salaries increase of 1.7 percent in accordance with the negotiated memorandum of understanding. This increase was offset by the continued District's effort to cut costs by looking at agency-wide efficiency, consolidating services and functions and the elimination of 25 positions and reducing consultant services.

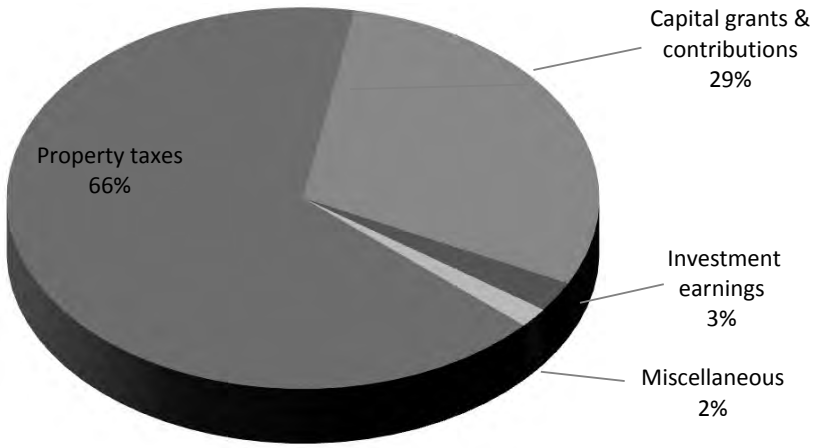
- Watersheds expenditures were higher by $2.7 million or 5.2 percent due to the increase in the spending for capital projects.

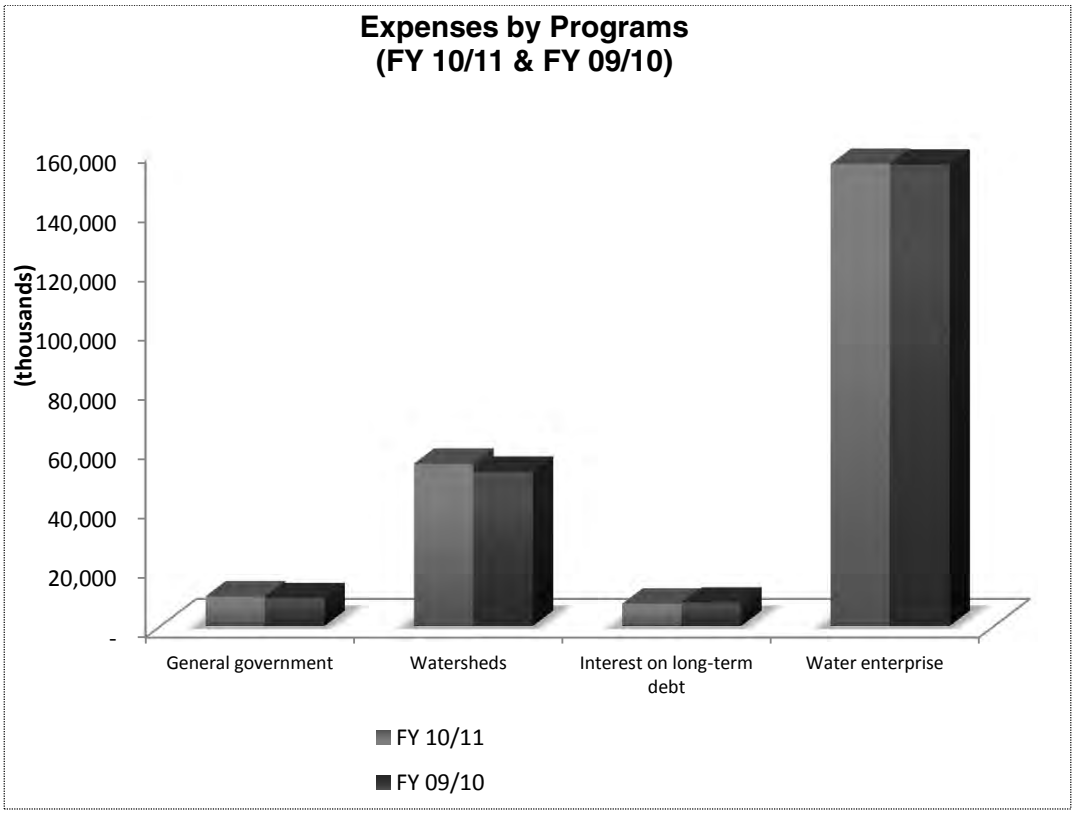
- Interest on long-term debt decreased by $365 thousand or 4.7 percent due to the decline in outstanding debt service amount resulting from retirement of outstanding debts.

Revenue by Sources – Government Activities
(FY 10/11 & FY 09/10)



Revenues by Sources – Governmental Activities
(FY 10/11)




Expenses by Programs
(FY 10/11 & FY 09/10)
(thousands)
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
-
General government
Watersheds
Interest on long-term debt
Water enterprise
FY 10/11
FY 09/10

Business-type activity. Net assets in business-type activity increased by $7.2 million or 1.1 percent, compared to the previous fiscal year. Key elements are as follows.

- Charges for services increased by $1.1 million or 1.0 percent. The increase was due to the increase in volume of treated water deliveries by 9.6 percent and was offset by the 7.3 percent reduction in the volume of ground water deliveries.

- Operating grants and contributions decreased by $238 thousand or 14.0 percent. The decrease was caused by lower operating grants received from the City of San Jose and from the County of Alameda for the Residential Water Conservation Program.

- Capital grants and contributions increased by $8.8 million or 551.9 percent due to the receipt of new grants such as $5.3 million from the American Recovery and Reinvestment Act funds for the South Bay Advanced Recycled Water Treatment Facility Projects, $2.4 million from the City of San Jose for the Recycled Water Facilities and Program Integration Program and $237 thousand from the County of Santa Clara for the Grant Jacques Gulch Project.

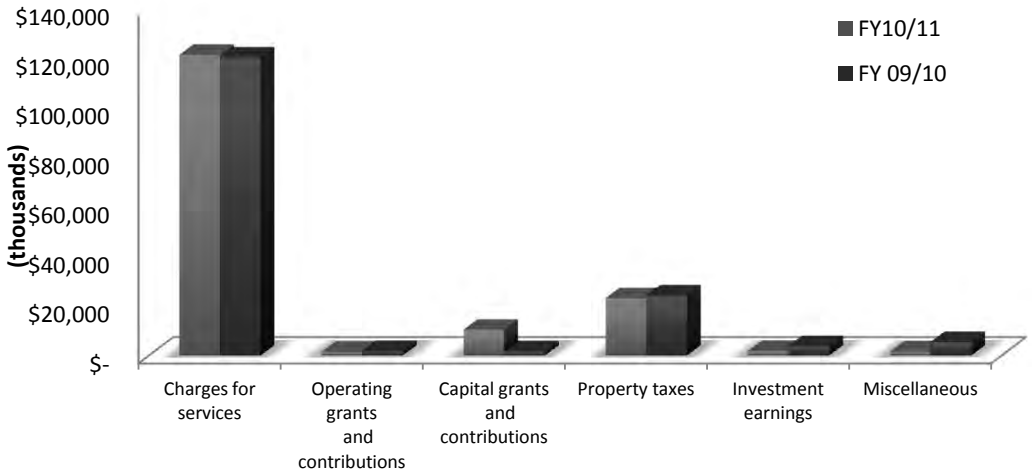
- Property taxes decreased by $1.1 million due to lower assessment to fund the principal payment of the 2007 revenue bonds and the decrease in the property tax received for the State Water Project.

- Investment earnings decreased by $2.0 million due to lower cash balances maintained in the fund, lower interest rates, and the net negative impact from the GASB 31 market value adjustment of $546 thousand.

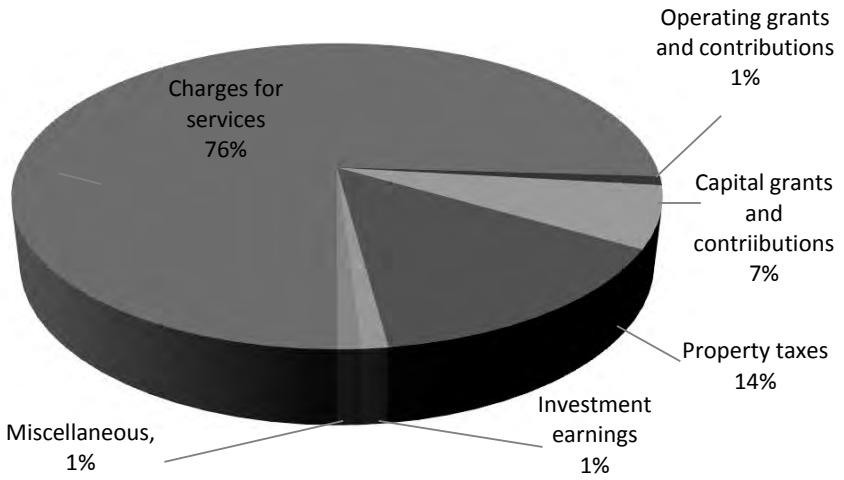
- Miscellaneous revenues were lower by $3.9 million or 71.1 percent due to one-time receipt of reimbursements from various sources in fiscal year 2009-10 that were not available in the current year. In fiscal year 2009-10, the sum of $772 thousand were received for the reimbursement of litigation expenses incurred in prior years related to the Hartford/Cinnabar Mines settlement case involving clean up of mercury contamination in the streams. In addition, the District received $1.5 million in the Olin settlement for the reimbursement of expenses incurred in prior years relating to the perchlorate issue and $1.8 million refund from the United State Bureau of Reclamation for excess funds contributed for the Delta-Mendota Canal California Aqueduct Intertie project.

- Water enterprise expenses increased by $244 thousand or 0.16 percent due to higher health and dental premiums, OPEB expense, and salaries increase of 1.7 percent in accordance with the negotiated memorandum of understanding and offset by various cost saving measures.

Revenues by Sources - Business Activity
(FY 10/11 & FY 09/10)



Revenues by Source – Business Activity
(FY 10/11)



Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of June 30, 2011, the District's governmental funds reported combined ending fund balances of $304.1 million, an increase of $8.2 million in comparison with the prior year. The result indicates the revenues generated were sufficient to cover the cost of operations. Revenues increased by $12.6 million, primarily from increases in reimbursement of capital costs of $15.0 million and property taxes of $3.8 million. These increases were offset by decreases in investment income of $3.7 million and other revenues of $2.5 million.

Reimbursement of capital costs increased by $15.0 million or 335.0 percent. In fiscal year 2010-11, the District received various capital reimbursements which were not available in fiscal year 2009-10. Property taxes increased by $3.8 million or 4.7 percent, $243 thousand in general fund and $3.6 million in the special revenue funds. Property taxes were lower in prior fiscal year 2009-10 due to the one-time withholding of approximately $4.5 million of secured property tax revenue by the State of California invoking the borrowing provisions of Proposition 1A. This increase was offset by lower property tax due to the decrease in the assessed value of some real properties.

Investment income decreased by $3.7 million or 56.44 percent due to lower interest rate and the net negative impact from the GASB 31 fair market value adjustment of $1.3 million. GASB 31 requires that the District records any differences between the fair market and the book value of the investment portfolio as of June 30, 2011 as an adjustment to interest income. Because the District's investment policy requires the District to hold its investments to maturity, the District rarely realizes any gains or losses from these adjustments. This annual adjustment is based upon the individual fund's cash balance. The allocation of the GASB 31 fair market value adjustment is reported in Note 5 found on page 64 of this report.

The District governmental expenditures increased during the fiscal year by $13.4 million or 12.7 percent. Operation and operating project expenditures increased by $6.8 million or 14.4 percent while capital project expenditures increased by $6.7 million or 16.2 percent. Majority of the increase in the operation and operating project expenditures is attributed to higher health and dental premiums, OPEB expense, and salaries increase of 1.7 percent in accordance with the negotiated memorandum of understanding. Capital project costs increased in flood protection projects funded by the Clean, Safe, Creek and Natural Flood Protection Program. The rise in cost was reduced by the District's continued cost saving efforts.

Approximately 46.3 percent of the total amount ($140.8 million) constitutes committed and assigned for specific purposes. The remainder of fund balance is restricted to indicate that it is not available for new spending because of the external enforceable limitations on its use: 1) to fund Clean, Safe Creek and Natural Flood Protection projects

($151.3 million); 2) to pay debt service ($8.7 million); and 3) debt proceeds restricted to use for specified capital projects ($3.3 million).

General fund

The general fund is the chief operating fund of the District supporting all administrative and strategic support services costs for the organization. It accounts for all financial resources except those required to be accounted for in another fund and is supported primarily by overhead reimbursements from other funds. At the end of the current fiscal year, the restricted, committed and assigned fund balance of the General Fund was $11.1 million. This amount is $6.6 million less than the prior year fund balance of $17.7 million due to lower revenue resulting from the decrease of $421 thousand in the investment income caused by lower interest rate earned on investments and higher operations and operating project costs that increased by $1.4 million. The amount of $2.6 million of 1% ad valorem property tax receipts was transferred to the water enterprise fund for the purpose of the open space credit which keeps agricultural groundwater production charges low and helps preserve open space.

Special revenue funds

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular watershed functions or activities of the District. The available fund balances at the end of the current fiscal year for the special revenue funds were $281.0 million, which increased during the current fiscal year by $15.0 million or 5.6 percent. The special revenue funds that reflected higher fund balances and the corresponding increases are: Watershed and Stream Stewardship by $3.1 million or 2.5 percent and Clean Safe Creek & Natural Flood Protection Program by $11.9 million or 8.6 percent. These increases are attributed primarily to the $15.7 million increase in the reimbursement of capital costs from the Department of Water Resources State Subvention funding of prior years expenditures ($11.4 million) and the receipt of the American Recovery and Reinvestment Act funds for the Pond A8 Applied Study Construction ($1.2 million) and Lower Silver Creek, Reach 4-6B Flood Protection ($3.1 million) projects.

Operations and operating project expenditures increased by $5.4 million or 12.7 percent and capital improvement projects costs were higher by $7.5 million or 19.5 percent. In fiscal year 2010-11, expenditures incurred in Guadalupe River-Upper Interstate 280 to Blossom Hill project were $13.8 million, an increase of $10.0 million from the prior fiscal year.

COP debt service fund

The COP debt service fund is used to account for resources used for debt service payments. It has a total fund balance of $8.7 million, all of which is reserved for payment of debt service. The fund balance is at the same level as last year.

COP construction fund

The COP construction fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. It has a total

fund balance of $3.3 million, all of which is reserved for the payment of capital related expenditures. The fund balance is at the same level as last year.

Proprietary funds. The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Enterprise fund. The Water Enterprise is a fund that accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss and the fund is intended to be entirely or predominantly self supported from user charges.

Net assets of the Water Enterprise Fund at the end of the fiscal year were $616.2 million, a decrease of $20.6 million from the prior fiscal year. Investment in capital assets, net of related debt decreased by $17.3 million, restricted net assets is at the same level as last year, committed and assigned net assets increased by $3.7 million. The decrease in the net assets and the investment in capital assets, net of related debt is primarily the result of transferring the net contract water rights associated with the State Water Project of $22.7 million to a new fund called State Water Project Fund.

Operating revenues increased by $851 thousand or 0.7 percent. Ground water revenue decreased by $4.8 million due to decrease in volume deliveries and was the result of the District's continued water conservation program. The treated water revenue increased by $5.9 million resulting from higher volume deliveries. This increase was slightly offset by a decrease in the non-contracted treated water rate.

Operating expense decreased by $14.9 million or 10.3 percent. The decrease in operating expenses was primarily due to the establishment of the State Water Project fund in FY 2011 where the cost related to the payment of debt service payment and other related State Water capital projects paid to the Department of Water Resources are recorded. This decrease is offset by the increase in the operating expense attributed to higher health and dental premiums, OPEB expense, and salaries increase of 1.7 percent in accordance with the negotiated memorandum of understanding and reduced by the District's continued cost saving efforts.

Net non-operating revenues decreased by $26.5 million or 108.5 percent. The decrease is the result of the following transactions: (1) approximately $18.6 million of property tax revenue which was formerly recorded in the Water Enterprise Fund is now booked in the newly established State Water Project Fund; (2) prior fiscal year 2009-10 receipt of claim settlements and reimbursement of ligation costs incurred in prior years of $5.1 million; (3) approximately $2.0 million decrease in investment income due to lower interest rate earned and lower cash balance; offset by (4) decrease in the interest and fiscal agent fees due to declining principal balance of the outstanding bonds.

Capital contribution increased by $8.8 million due to receipt of monies from American Recovery and Reinvestment Act, City of San Jose and County of Santa Clara to fund South Bay Advanced Recycled Water Treatment Facility and Grant Jacques Gulch projects.

State Water Project fund. The State Water Project fund was established and approved by the Board of Directors on October 26, 2010. This fund accounts for the State Water

Project Tax receipts pursuant to Section 1B of Article 13A of the California Constitution to pay for county-wide voter-approved State Water Project contract obligations. Funds are used for to pay for the Water System Revenue Bond and other related capital expenditures billed by the State of California Department of Water Resources and are accounted for in such a manner as to restrict the use of the funds exclusively for the State Water Project related costs.

Operating expenses for this newly established fund were $16.7 million that include the District's share on the debt service payment of the county-wide Water Revenue Bond and other capital related costs payments to the Department of Water Resources, and the amortization of the water rights. These expenses were recorded in the Water Enterprise fund in prior years.

Net non-operating revenues for this newly established fund was $19.8 million comprised of property tax receipts ($18.6 million) and refunds from the State of California Department of Water Resources ($1.2 million) for prior year's payments for capital related expenses.

Internal Service Funds. The District has two internal service funds, the Equipment Fund and the Risk Management Fund. Revenues to the funds are generated from fees charged to the District operating programs for services provided.

The Equipment Fund charges replacement and maintenance costs to all operations, operating, and capital projects based on equipment assignment or hourly usage of equipment on projects. Net assets in the Equipment Fund for the fiscal year ended June 30, 2011 increased by $478 thousand or 3.7 percent. The amount required to fund the replacement and maintenance cost of the Equipment Fund is determined during the budget process and varies yearly depending upon need. Operating revenues increased by $704 thousand million, reflective of increased computer equipment charges for computer software and hardware improvements that were offset by a slight increase in the vehicle service charges. Equipment maintenance costs and depreciation expenses increased by $401 thousand during the year. This is the result of the increase in health and dental premiums, OPEB expense, and salaries increase of 1.7 percent in accordance with the negotiated memorandum of understanding, offset by the reduction in the purchase of office and computer equipment as part of the District's cost saving measures.

The Risk Management Fund charges premiums based on exposure levels by project for liability, property, worker's compensation and self-insurance costs. Revenues required to properly fund the Risk Management Fund are determined during the budget process and varies yearly depending upon need. Net assets in the Risk Management Fund for the fiscal year ended June 30, 2011 increased by $1.5 million or 29.4 percent. Administration and general expenses were lower by $2.3 million, primarily due to (1) decrease in legal services expense by $1.4 million resulting from settlement of a case and a higher amount of legal service fees incurred in the Great Oaks Water Company litigation in FY2010; (2) adjustment to the General Liability and Workers Compensation Liability balances ($611 thousand) based on the actuarial study completed in October 2010 that resulted in reduction in expenses; and, (3) lower insurance premiums.

General Fund Budgetary Highlights

The table below shows that the Final Budget has a net increase of $0.8 million as compared with Adopted Budget of $47.6 million. This increase includes (a) $ $0.3 million capital projects budget balance carried forward to FY2010-11; and, (b) $0.5 million current year budget adjustments.

Adopted Budget	+ Capital Projects Budget Remaining Carry-forward	+ Current Year Budget Adjustments	= Final Budget
$47,591K	306K	552K	$48,449

Total expenditures (budgetary basis) for the fiscal year 2010-11 are $46.1 million, rose 0.3% percent from FY2009-10.

Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to $1,790.5 million (net of accumulated depreciation). The investment in capital assets includes intangible rights, land, buildings, structures and improvements (which include the flood control improvement), machinery and equipment. During fiscal year 2010-11, the total increase in the District's investment in capital assets was 4.0 percent (a 3.9 percent increase for governmental activities and a 4.2 percent increase for the business-type activity).

Major capital projects in progress during the current fiscal year include the following (in millions):

- Lower Silver Creek-R5-6 N. Babb to Cunningham - $8.7
- Guadalupe River-Upper, Southern Pacific Railroad Bridge to Blossom Hill Road (Reach 7-12) - $7.1
- Guadalupe River-Upper I-280 to Southern Pacific Railroad Bridge (R6) - $6.8
- Lower Berryessa Creek, Lower Penitencia to Calaveras - $3.6
- Almaden & Winfield Campus, Small Capital Improvements - $2.0
- Uvas Llagas Creek Design – Buena Vista Road to Wright Avenue - $2.0
- Permanente Creek, San Francisco Bay to Foothill Expressway - $1.8
- Pond A8 Applied Study Construction - $1.6
- South Bay Advanced Recycled Water Treatment Plant - $11.7
- Pacheco Pumping Plant Adjustable Speed Drives Replacement - $4.5
- Santa Teresa Water Treatment Plant Incompatible Materials - $3.2
- Dam Safety Program Seismic Stability - $2.8
- Rinconada Water Treatment Plant Chemical System Upgrade - $2.5
- Recycled Water South County Master Plan Implementation, Short Term-$2.2
- Santa Clara Conduit SVI-CPP - $1.9
- Penitencia Water Treatment Plant Standby Power System Upgrade - $1.4

Santa Clara Valley Water District's Capital Assets
(net of depreciation)
(Dollars in Thousands)

	Governmental activities		Business-type activity		Total	
	2011	2010	2011	2010	2011	2010
Land	$152,123	$146,082	$17,594	$17,594	$169,717	$163,676
Contract water and storage rights	-	-	60,294	60,857	60,294	60,857
Buildings	28,865	29,615	2,819	1,596	31,684	31,211
Structures and improvements	518,308	479,750	395,986	390,657	914,294	870,407
Equipment	11,824	10,857	7,222	8,559	19,046	19,416
Construction in progress	340,222	345,558	252,712	227,345	592,934	572,903
Intangibles - Easements	2,546	2,387	-	-	2,546	2,387
Total	$1,053,888	$1,014,249	$736,627	$706,608	$1,790,515	$1,720,857

Information on the District's capital assets activity for fiscal year 2010-11 can be found in Note 6 on pages 65-66 of this report.

Debt Administration

At the end of the current fiscal year, the District had total debt outstanding of $404.9 million. This District's long-term obligations outstanding as of June 30, 2011 consisted of the following:

Santa Clara Valley Water District's Outstanding Obligations

(Dollars in Thousands)

	Governmental activities		Business-type activity		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	$ -	$ -	$ 405	$ 910	$ 405	$ 910
Certificates of participation	143,160	152,440	-	-	143,160	152,440
Revenue bonds	-	-	89,025	91,440	89,025	91,440
Revenue bonds-COP	-	-	126,415	128,760	126,415	128,760
Compensated absences	12,174	12,137	7,706	7,679	19,880	19,816
Litigation claim	-	-	6,414	6,090	6,414	6,090
Semitropic water banking	-	-	6,045	5,311	6,045	5,311
State revolving fund loan	-	-	5,711	5,971	5,711	5,971
Bond Discount	-	-	(868)	(906)	(868)	(906)
Deferred amount on refunding	(6,969)	(7,451)	(2,442)	(2,564)	(9,411)	(10,015)
Deferred interest swap	-	-	(7,289)	(7,570)	(7,289)	(7,570)
Premium on bond issue	-	-	2,755	2,861	2,755	2,861
Premium on refunded debt	5,921	6,305	-	-	5,921	6,305
Claims payable	6,819	7,606	-	-	6,819	7,606
Other post employment benefits	6,056	3,781	3,872	2,389	9,928	6,170
Total	$ 167,161	$ 174,818	$ 237,749	$ 240,371	$ 404,910	$ 415,189

The District's total obligations decreased by $10.3 million during fiscal year 2010-11. All decreases in obligations were from the normal repayment of principal on existing outstanding debt. There were no bonds issued during the fiscal year 2010-11.

The rating of the District's Watershed certificates of participation series is Aa2 from Moody's and AA from Standard & Poor. The rating of the Water Utility Enterprise Fund revenue bonds is Aa1 from Moody's and AA from Standard & Poor.

Additional information on the District's long-term debt can be found in Note 7 on pages 67-70 of this report.

Economic Factors and Next Year's Budgets

The annual budget outlines the staff's plan to carry out the District's mission, "A healthy, safe, and enhanced quality of living in Santa Clara County through watershed stewardship and comprehensive management of water resources in a practical, cost-effective, and environmentally sensitive manner for current and future generations"

In considering the District's budget for fiscal year 2011-12, the Board of Directors and the District management issued the following directions:

- Reduction of FY2011-12 budget by $2.5 million from FY2010-11, for a total budget of $312.6 million in the continuing effort to cut cost.
- Scheduled construction of 12 capital projects which is expected to generate an estimated 900 – 1,700 local jobs.
- External funding of $31.5 million, including $11.6 million in federal American Recovery and Reimbursement Act stimulus funding.
- Reductions in Water Utility Enterprise operations costs by 1.7 percent; increase in Watersheds operations cost by 8.9 percent.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors, with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the General Accounting Unit at 5750 Almaden Expressway, San Jose, CA 95118, or call (408) 265-2600.


Santa Clara Valley
Water District

BASIC FINANCIAL STATEMENTS

SANTA CLARA VALLEY WATER DISTRICT

Statement of Net Assets
June 30, 2011
(Dollars in Thousands)

	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and investments (Note 3)	$ 310,761	$ 114,980	$ 425,741
Restricted cash and investments (Note 3)	12,131	13,209	25,340
Receivables (net):			
Accounts	4,794	25,531	30,325
Interest	1,221	-	1,221
Taxes	416	129	545
Due from other governments	4,480	354	4,834
Deposits and other assets	1,974	9,892	11,866
Internal balances	4,088	(4,088)	-
Deferred charges	1,371	1,217	2,588
Capital assets (Note 6):			
Contract water and storage rights, net	-	60,294	60,294
Nondepreciable	494,891	270,306	765,197
Depreciable, net	558,997	406,027	965,024
Total assets	1,395,124	897,851	2,292,975
LIABILITIES			
Accounts payable	6,974	7,840	14,814
Accrued liabilities	1,994	5,673	7,667
Deposits payable	2,208	1,785	3,993
Accrued interest payable	2,809	762	3,571
Noncurrent liabilities (Note 7):			
Litigation claim (Note 18)	-	6,414	6,414
Due within one year	11,842	6,400	18,242
Due in more than one year	155,318	224,935	380,253
Total liabilities	181,145	253,809	434,954
NET ASSETS (Note 11)			
Investment in capital assets, net of related debt	915,118	524,557	1,439,675
Restricted			
Debt service	5,880	4,675	10,555
Clean Safe Creek - Other Activities	151,341		151,341
WU State Revolving Loan Requirements	-	401	401
WU San Felipe Emergency	-	3,924	3,924
WU Operating	-	11,966	11,966
WU Rate Stabilization	-	1,647	1,647
WU State Water Projects	-	4,211	4,211
Unrestricted	141,640	92,661	234,301
Total net assets	$ 1,213,979	$ 644,042	$ 1,858,021

See accompanying notes to basic financial statements

SANTA CLARA VALLEY WATER DISTRICT

Statement of Activities
For the Year Ended June 30, 2011
(Dollars in Thousands)

Function	Governmental Activities: General Government	Governmental Activities: Watersheds	Governmental Activities: Interest on Long-term Debt	Governmental Activities: Total	Business-Type Activity	Total
Expenses:						
Operations and operating projects	$ 9,954	$ 54,562	$ 7,476	$ 71,992	$ 155,389	$ 227,381
Program revenues:						
Charges for services	-	-	-	-	121,347	121,347
Operating grants and contributions	-	-	-	-	1,458	1,458
Capital grants and contributions	-	38,578	-	38,578	10,443	49,021
Net program revenue (expense)	$ (9,954)	$ (15,984)	$ (7,476)	(33,414)	(22,141)	(55,555)
General revenues:						
Property taxes (Note 8)				86,217	23,181	109,398
Unrestricted investment earnings				3,337	1,779	5,116
Miscellaneous				2,189	1,575	3,764
Transfers (Note 16)				(2,811)	2,811	-
Total general revenues and transfers				88,932	29,346	118,278
Change in net assets				55,518	7,205	62,723
Net assets, beginning of year				1,158,461	636,837	1,795,298
Net assets, end of year				$ 1,213,979	$ 644,042	$ 1,858,021

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Balance Sheet
Governmental Funds
June 30, 2011
(Dollars in Thousands)

	General	Watershed & Stream Steward
ASSETS		
Cash and investments (Note 3)	$ 12,398	$ 131,859
Restricted cash and investments (Note 3)	-	77
Receivables:		
Accounts	82	2,034
Interest	1,221	-
Taxes	37	379
Due from other governments (Note 9)	403	4,077
Deposits and other assets	10	116
Total assets	$ 14,151	$ 138,542
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 1,550	$ 3,411
Accrued liabilities	1,083	715
Deposits payable	13	670
Deferred revenue (Note 9)	403	4,077
Total liabilities	3,049	8,873
Fund balances (Note 10):		
Restricted Fund Balance:	-	-
Committed Fund Balance	7,945	86,183
Assigned Fund Balance	3,157	43,486
Total fund balances	11,102	129,669
Total liabilities and fund balance	$ 14,151	$ 138,542

See accompanying notes to basic financial statements.

Clean, Safe Creek & Natural Flood Protection Program	COP Debt Service	COP Construction Fund	Total Governmental Funds
$ 150,765	$ -	$ -	$ 295,022
23	8,689	3,342	12,131
2,622	-	-	4,738
-	-	-	1,221
-	-	-	416
-	-	-	4,480
1,502	-	-	1,628
$ 154,912	$ 8,689	$ 3,342	$ 319,636
$ 1,860	$ -	$ -	$ 6,821
186	-	-	1,984
1,525	-	-	2,208
-	-	-	4,480
3,571	-	-	15,493
151,341	8,689	3,342	163,372
-	-	-	94,128
-	-	-	46,643
151,341	8,689	3,342	304,143
$ 154,912	$ 8,689	$ 3,342	$ 319,636

SANTA CLARA VALLEY WATER DISTRICT

Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
June 30, 2011
(Dollars in Thousands)

Amount reported for governmental activities in the statement of net assets are different because:

Fund balances of governmental funds	$	304,143
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of governmental funds.		1,048,055
Certain property tax revenues are not recognized in the governmental funds balance sheet because they are long-term in nature. On the government-wide statement of net assets, these property tax revenues are recorded as due from other government.		4,480
Internal service funds are used by management to charge the costs of equipment and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		18,258
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.		(2,809)
Underwriter's discount and costs of issuance are capitalized on the government-wide statement of net assets, whereas, they are reported as expenditures in the governmental funds.		1,371
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:		
Certificates of participation		(143,160)
Deferred amount on refunding		6,969
Net original issue premium		(5,921)
Compensated absences		(11,635)
Other post employment benefits		(5,772)
Net assets of governmental activities	$	1,213,979

See accompanying notes to basic financial statements


Santa Clara Valley
Water District

SANTA CLARA VALLEY WATER DISTRICT

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011
(Dollars in Thousands)

	General	Watershed & Stream Stewardship
Revenues:		
Property taxes (Note 8)	$ 4,685	$ 47,567
Benefit assessments (Note 8)	-	19,091
Use of money and property:		
Investment income (Note 5)	57	1,099
Rental	-	1,139
Reimbursement of capital costs (Note 4)	-	15,442
Other	121	564
Total revenues	4,863	84,902
Expenditures:		
Current:		
Operations and operating projects	6,018	42,644
Capital improvement projects	2,251	23,832
Debt service:		
Principal repayment	-	-
Interest and fiscal agent fees	-	22
Total expenditures	8,269	66,498
Excess (deficiency) of revenues over (under) expenditures	(3,406)	18,404
Other financing sources (uses):		
Transfers in (Note 16)	189	4,505
Transfers out (Note 16)	(3,418)	(19,793)
Total other financing sources (uses)	(3,229)	(15,288)
Net change in fund balances	(6,635)	3,116
Fund balances, beginning of year	17,737	126,553
Fund balances, end of year	$ 11,102	$ 129,669

Clean, Safe Creek & Natural Flood Protection Program	COP Debt Service	COP Construction Fund	Total Governmental Funds
$ 33,965	$ -	$ -	$ 86,217
-	-	-	19,091
1,352	346	6	2,860
249	-	-	1,388
4,045	-	-	19,487
16	-	-	701
39,627	346	6	129,744
5,116	-	-	53,778
22,395	-	-	48,478
-	9,280	-	9,280
-	7,136	-	7,158
27,511	16,416	-	118,694
12,116	(16,070)	6	11,050
377	15,879	-	20,950
(550)	-	-	(23,761)
(173)	15,879	-	(2,811)
11,943	(191)	6	8,239
139,398	8,880	3,336	295,904
$ 151,341	$ 8,689	$ 3,342	$ 304,143

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011
(Dollars in Thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	$	8,239
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($47,707) exceed depreciation ($8,660) in the current period.		39,047
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds while it does not have any effect on net assets.		
Certificates of participation		9,280
Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but they do not require the use of current financial resources. This amount represents the net change in accrued interest expense not reported in governmental funds.		164
Amortization of deferred amount on refunding, discounts, and issuance costs is not recognized in the governmental funds. In the government-wide statements, it is capitalized and amortized over the life of the related debts.		
Deferred amount on refunding		(482)
Underwriter's discount and cost of issuance		(96)
Net original issue premium		384
Internal service funds are used by management to charge the costs of equipment and risk management to individual funds. The net revenue of internal service funds is reported with governmental activities.		1,247
Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds:		
Compensated absences		(34)
Other post employment benefits		(2,166)
Interest from monies held in restricted bank accounts		(65)
Change in net assets of governmental activities	$	55,518

See accompanying notes to basic financial statements

SANTA CLARA VALLEY WATER DISTRICT

Statement of Net Assets
Proprietary Funds
June 30, 2011
(Dollars in Thousands)

	Business-type Activity			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments (Note 3)	$ 111,142	$ 3,838	$ 114,980	$ 15,739
Restricted cash and investments (Note 3)	13,209	-	13,209	-
Receivables:				
Accounts	25,531	-	25,531	56
Taxes	34	95	129	-
Due from other governments (Note 9)	354	-	354	-
Deferred charge	1,217	-	1,217	-
Deposits and other assets	9,614	278	9,892	346
Total current assets	161,101	4,211	165,312	16,141
Non current assets:				
Capital assets: (Note 6)				
Contract water rights, net	36,684	23,610	60,294	-
Nondepreciable	270,306	-	270,306	-
Depreciable, net	406,027	-	406,027	5,833
Total non current assets	713,017	23,610	736,627	5,833
Total assets	874,118	27,821	901,939	21,974
LIABILITIES				
Current liabilities:				
Accounts payable	7,840	-	7,840	153
Accrued liabilities	5,673	-	5,673	10
Deposits payable	1,785	-	1,785	-
Accrued interest payable	762	-	762	-
Claims payable (Note 14)	-	-	-	476
General obligation bonds - current (Note 7)	405	-	405	-
Revenue bonds - current (Note 7)	4,624	-	4,624	-
Other Debt (Note 7)	1,371	-	1,371	76
Total current liabilities	22,460	-	22,460	715
Non current liabilities:				
Litigation claim (Note 18)	6,414	-	6,414	-
Long-term debt: (Note 7)				
General obligation bonds - non current	-	-	-	-
Revenue bonds (net of unamortized discount and deferred amount on refunding)	202,973	-	202,973	-
Claims payable (Note 14)	-	-	-	6,343
Other post employment benefits payable (Note 13)	3,872	-	3,872	284
Other debt	18,090	-	18,090	462
Total long-term debt	224,935	-	224,935	7,089
Total non current liabilities	231,349	-	231,349	7,089
Total liabilities	253,809	-	253,809	7,804
NET ASSETS (Note 10)				
Investment in capital assets, net of related debts	500,947	23,610	524,557	5,833
Restricted	22,613	4,211	26,824	-
Committed	29,540	-	29,540	7,168
Assigned	67,209	-	67,209	1,169
Total net assets	$ 620,309	$ 27,821	$ 648,130	$ 14,170
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.	(4,088)	-	(4,088)	
Net assets of business-type activities	$ 616,221	$ 27,821	$ 644,042	

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Business-type Activity			Governmental Activities
	Water Enterprise Fund	State Water Fund	Total	Internal Service Funds
Operating revenues:				
Ground water production charges	$ 50,384	$ -	$ 50,384	$ -
Treated water charges	70,135	-	70,135	-
Surface and recycled water revenue	828	-	828	-
Operating grants	1,458	-	1,458	-
Charges for services	-	-	-	10,833
Other	14	-	14	-
Total operating revenues	122,819	-	122,819	10,833
Operating expenses:				
Sources of supply	54,871	15,475	70,346	-
Water treatment	25,020	-	25,020	-
Transmission and distribution:				
Raw water	8,910	-	8,910	-
Treated water	2,845	-	2,845	-
Administration and general	17,956	-	17,956	2,618
Claims and Adjustments	324	-	324	-
Equipment maintenance	-	-	-	5,327
Insurance	-	-	-	-
Depreciation and amortization	20,688	1,249	21,937	1,160
Total operating expenses	130,614	16,724	147,338	9,105
Operating income (loss)	(7,795)	(16,724)	(24,519)	1,728
Nonoperating revenues (expenses):				
Property taxes (Note 8)	4,615	18,566	23,181	-
Investment income (Note 5)	1,779	-	1,779	158
Rental income	90	-	90	-
Other	235	1,236	1,471	100
Interest and fiscal agent fees	(8,790)	-	(8,790)	-
Net nonoperating revenues	(2,071)	19,802	17,731	258
Income before capital contributions and transfers	(9,866)	3,078	(6,788)	1,986
Capital contributions (Note 4)	10,443	-	10,443	-
Transfers in (Note 16)	3,000	439	3,439	-
Transfers out (Note 16)	(628)	-	(628)	-
Change in net assets	2,949	3,517	6,466	1,986
Net assets, beginning of year	641,664		641,664	12,184
Transfer of Reserve	(1,610)	1,610	-	-
Transfer of Water Rights	(22,694)	22,694	-	-
Net assets, end of year	620,309	27,821	648,130	$ 14,170
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.	(4,088)	-	(4,088)	
Net assets of business-type activities	$ 616,221	$ 27,821	$ 644,042	

Reconciliation of the Statement of Revenues, Expenses and Change in Net Assets to the Statement of Activities:

Amounts reported as business-type activities in the statement of activities are different because:

Net change in net assets - business-type activities	$ 6,466
Activity of internal service fund due from business-type activities	739
Change in net assets of busintess-type activities (page 37)	$ 7,205

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Business-type Activity			Governmental Activities
	Water Enterprise Fund	State Water Fund	Total	Internal Service Funds
Cash flows from operating activities:				
Receipts from customers and users	$ 125,154	$ -	$ 125,154	$ 10,777
Payments to suppliers	(59,886)	(15,753)	(75,639)	(5,212)
Payments to employees	(53,140)	-	(53,140)	(3,562)
Payments for internal services used	(4,088)	-	(4,088)	-
Other receipts	235	1,236	1,471	100
Net cash provided by operating activities	8,275	(14,517)	(6,242)	2,103
Cash flows from noncapital financing activities:				
Property taxes received	4,630	18,471	23,101	-
Capital Contribution	10,442	-	10,442	-
Transfers out to other funds	762	2,049	2,811	-
Net cash provided by noncapital financing activities	15,834	20,520	36,354	-
Cash flows from capital and related financing activities:				
Principal payments on general obligation bonds	(505)	-	(505)	-
Principal payments on revenue bonds	(4,758)	-	(4,758)	-
Principal payments on other loans	474	-	474	-
Interest and fiscal agent fees paid	(8,424)	-	(8,424)	-
Acquisition of contract water rights	(6,893)	(2,165)	(9,058)	-
Acquisition and construction of capital assets	(42,898)	-	(42,898)	(1,752)
Net cash used by capital and related financing activities	(63,004)	(2,165)	(65,169)	(1,752)
Cash flows from investing activities:				
Sale of restricted investments	145	-	145	-
Rental income received	90	-	90	-
Interest received on cash and investments	1,779	-	1,779	158
Net cash provided by investing activities	2,014	-	2,014	158
Net decrease in cash and cash equivalents	(36,881)	3,838	(33,043)	509
Cash and cash equivalents, beginning of year	155,966	-	155,966	15,230
Cash and cash equivalents, end of year	$ 119,085	$ 3,838	$ 122,923	$ 15,739
Cash and cash equivalents are reported on the Statement of Net Assets as follows:				
Cash and investments	$ 111,142	$ 3,838	$ 114,980	$ 15,739
Restricted cash and investments	13,209	-	13,209	-
Less cash and investments not meeting the definition of cash equivalents	(5,266)	-	(5,266)	-
Cash and cash equivalents, end of year	$ 119,085	$ 3,838	$ 122,923	$ 15,739
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ (7,795)	$ (16,724)	$ (24,519)	$ 1,728
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	20,688	1,249	21,937	1,160
Other receipts	235	1,236	1,471	100
Change in operating assets and liabilities:				
Decrease in deposits and other assets	(7,582)	(278)	(7,860)	-
(Increase)/decrease in accounts receivable	2,335	-	2,335	(56)
Decrease in prepaid asset	-	-	-	74
Decrease in inventory	44	-	44	(34)
Decrease in accounts payable	104	-	104	(194)
Increase/(decrease) in accrued liabilities	(1,821)	-	(1,821)	1
Decrease in deposits payable	234	-	234	-
Increase in claims payable	-	-	-	(787)
Increase in litigation claim	323	-	323	-
Increase in other post employment benefits & compensated absences	1,510	-	1,510	111
Net cash provided (used) by operating activities	$ 8,275	$ (14,517)	$ (6,242)	$ 2,103

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Statement of Fiduciary Net Assets
Agency Funds
June 30, 2011
(Dollars in Thousands)

ASSETS	
Cash and investments (Note 3)	$ 162
Total assets	162
LIABILITIES	
Deposits payable	162
Total liabilities	$ 162

See accompanying notes to basic financial statements.

(1) THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

Santa Clara Valley Water District (District) is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. The District encompasses all of Santa Clara County.

The District is governed by a seven member Board of Directors. Five of the members are elected from the area of each of the five District supervisorial districts and two members are appointed from specific geographic areas by the Board of Supervisors to represent the District at large. The term of office for the directors is four years.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the board of the District by requiring the board to transition to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. The board also would be required to adopt a resolution establishing boundaries of the seven electoral districts. On May 14, 2010, the Board of Directors adopted a resolution that officially set the boundaries of the seven electoral districts. In November, 2010, two directors were elected to represent the new electoral districts constituting a new board of seven members.

The District has broad powers relating to all aspects of flood control and storm waters within the District, whether or not such waters have their sources within the District. It is also authorized to store and distribute water for use within its jurisdictional boundaries and authorized to provide sufficient water for present or future beneficial use of the lands and inhabitants of the District. The District acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. The District also directly supports the caring for the environment and the community through careful stewardship.

As required by generally accepted accounting principles (GAAP) in the United States of America, the accompanying basic financial statements present the District and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational and financial relationship with the District.

(b) Blended Component Unit

The Santa Clara Valley Water District Public Facilities Financing Corporation (the Corporation) was established on December 16, 1987 for the purpose of providing assistance to the District in financing the acquisition, construction and improvement of public buildings, works and equipment for the District. Although legally separate from the District, the Corporation is reported as if it were part of the primary government because its sole purpose is to provide financing to the District under the debt issuance documents of the District. The operations of the Corporation are accounted for in the special revenue and debt service funds.

Component unit financial information can be obtained from the General Accounting Unit of the District at 5750 Almaden Expressway, San Jose, CA 95118.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the District) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the District. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from the business-type activity, which rely to a significant extent on fees charged to external parties.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the government activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between the governmental and business-type activities have not been eliminated.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activity of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted net assets are available, restricted resources are used for qualified expenditures for capital improvement projects before any unrestricted resources are spent.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including agency funds and the blended component unit. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The fund financial statements present all governmental funds and the water enterprise fund.

The District reports the following governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District that are not accounted for through other funds.

- The *Watershed and Stream Stewardship Fund* is funded by the District's one percent property tax allocation and used to protect, restore, or enhance the watersheds, streams and natural resources therein. Starting from fiscal year 2008-09, this fund was redefined to consolidate all watershed stewardship activities from a portion of the District's ad valorem property tax allocation.

  The Watershed and Stream Stewardship Fund includes the following watershed activities that were based on their geographic boundaries:

  - The *Lower Peninsula Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek. The geographic area includes the Cities of Palo Alto, Los Altos, Los Altos Hills, Mountain View, and portions of Cupertino.

  - The *West Valley Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe Slough, Sunnyvale West Outfall, Sunnyvale East Outfall, Calabazas Creek, San Tomas Aquino Creek, and Saratoga Creek. The geographic area includes portions of the Cities of Sunnyvale, Cupertino, Monte Sereno, San Jose, Santa Clara, Campbell, Saratoga and the Town of Los Gatos.

  - The *Guadalupe Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe River. The major tributaries are Los Gatos Creek, Canoas Creek, Ross Creek, Guadalupe Creek, and Alamitos Creek. The geographic area includes portions of the Cities of Santa Clara, San Jose, Campbell, Monte Sereno, and the Town of Los Gatos.

  - The *Coyote Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of Coyote Creek. The major tributaries are Lower Penitencia Creek, Scott Creek, Berryessa Creek, Upper Penitencia Creek, Silver Creek, Thompson Creek, Fisher Creek, and Packwood Creek. The geographic area includes the City of Milpitas and portions of the Cities of San Jose and Morgan Hill.

  - The *Uvas/Llagas Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Pajaro River in Santa Clara County. The major tributaries are Little Llagas Creek, Llagas Creek, west branch of Llagas Creek, Uvas-Carnadero Creek, Pescadero Creek, and Pacheco Creek. The Uvas/Llagas Watershed Fund is comprised of mostly unincorporated area and includes the City of Gilroy and portions of the Cities of San Jose and Morgan Hill.

- The *Clean, Safe Creeks and Natural Flood Protection Program* is used to manage specific revenues and expenditures approved with the passage of Measure B in November 2000.

- The *COP Debt Service Fund* is used to account for monies being held for reserve requirements and arbitrage rebate for the District's debt payments.

- The *COP Construction Fund* is used to account for COP proceeds used for the construction of major capital projects with their respective watersheds.

The District reports the following proprietary funds:

- The *Water Enterprise Fund* accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

  The State Water Project Fund accounts for all revenues and costs associated with the State Water Project.

- The *Internal Service Funds* account for the financing of goods or services provided by one department or agency of the District to other departments or agencies on a cost-reimbursement basis.

- The *Equipment Fund* accounts for the maintenance and operation of the District's vehicle fleet, heavy construction, and information system equipment.

- The *Risk Management Fund* accounts for the monies set aside to pay for all claims, judgments, and premium cost.

The District reports *Agency Funds* (fiduciary fund type) to account for assets held by the District as an agent for private organizations and/or other governments.

- The *Deposit Fund* is used to account for the collection and payment of expenditures for funds held in trust for specific restricted purposes.

(b) Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property taxes, benefit assessments, interest, grants and

charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences are recorded when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its business-type activities and enterprise fund, the District has elected, under Governmental Accounting Standard's Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water enterprise fund is the sale of water to outside customers and of the District's internal service funds are charges for services provided to internal departments. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary fund *operating* revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. *Non-operating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Agency funds are used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Funds held in the Deposit Fund use the accrual method of accounting.

(c) Noncurrent Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide statement of net assets.

(d) Cash and Investments

While maintaining safety and liquidity, the District maximizes its investment return by pooling its available cash for investment purposes. Interest earnings are apportioned among funds based upon the average monthly cash balance of each fund and are allocated to each fund on a monthly basis.

The District reported investments in nonparticipating interest earnings contracts (including guaranteed investment contracts) at cost, investments that mature beyond one year from the

date of acquisition at fair value, and investments that mature within one year or less from the date of acquisition at amortized cost. The fair value of investments is based on current market prices.

For purposes of the Statement of Cash Flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased (including restricted investments), and their equity in the cash and investment pool to be cash equivalents.

(e) Inventory

Proprietary fund inventory consists of materials and supplies held for consumption. The cost of all inventory acquired is recorded as an expense at the time of purchase. At the end of the accounting period, the inventory values of materials and supplies on hand are determined using a current cost method which approximates market value. For financial statement purposes inventories are presented under deposits and other assets.

(f) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets of governmental activities include pipelines, channel linings, floodwalls, levees, bridge flood proofing, box culverts and re-vegetation. The District defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Water treatment facilities	50 Years
Buildings, structures, and trailers	25 – 50 Years
Flood control projects	30 – 100 Years
Dams, structures, and improvements	80 Years
Office furniture, fixtures, and equipment	5 - 20 Years
Automobiles and trucks	6 - 12 Years
Computer equipment	5 Years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

(g) Amortization of Contract Water Rights

The District has contracted with the State for water deliveries from the State Water Project through calendar year 2035. A portion of the payments under this contract represent reimbursement of capital costs for transportation facilities (the capital cost component). The

Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(h) Amortization of Water Banking Rights

The District has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar year 2035. Participation in the program provides the District a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Water Enterprise Fund has capitalized the cost of the program and amortizes its cost over the 40 year entitlement period using the straight-line method.

(i) Amortization of Water Delivery Rights

The District has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from Central Valley through calendar year 2027. A portion of this contract represents reimbursement of capital costs for general construction in the San Felipe Division facilities. The Water Enterprise Fund capitalized the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(j) Receivables

Receivables include amounts due from water utility customers as well as amounts due for property taxes and interest on investments. All receivables are shown net of an allowance for doubtful accounts of $6,000.

(k) Due from Other Governments

Amounts due from other governments represent amounts due from various government agencies for reimbursement of the District's expenditures/expenses in association with construction projects.

(l) Accrued Vacation and Sick Leave Pay

It is the policy of the District to permit employees to accumulate earned but unused vacation and sick leave benefits. Vested or accumulated vacation and sick leave are reported as noncurrent liabilities on the statement of net assets.

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without limitation. Upon termination, the eligible employees will be paid a portion of unused sick leave at the employee's base pay rate at the time of termination. The percentage of unused sick leave varies with the employee's length of service at the District.

(m) Bond Premiums, Discounts and Issuance Costs

Water Enterprise bond discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Issuance costs are reported as deferred charges.

On the statement of net assets and the statement of activities the 2003A COP, 2004 COP and 2007A COP premiums, as well as issuance costs, are deferred and amortized over the life of the certificates. COP payable are reported net of the applicable bond premium. Issuance costs are reported as deferred charges.

(n) Encumbrances

The District employs encumbrance accounting as a significant aspect of budgetary control. Under encumbrance accounting, purchase orders, contracts and other commitments for expenditure of funds are recorded as reservations of fund balance since they are not treated as current expenditures or outstanding liabilities at year end for GAAP financial reporting.

(o) Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(p) New Pronouncements

Government Accounting Standards Board State No. 54

For fiscal year ended June 30, 2011, the District implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions."* The requirement of this statement are effective for financial statement periods beginning after June 15, 2010.

(3) CASH AND INVESTMENTS

Total District cash and investments at June 30, 2011 are as follows (in thousands):

Statement of Net Assets:	
Cash and investments	$ 425,741
Restricted cash and investments	25,340
Statement of Fiduciary Net Assets:	
Cash and investments	162
	$ 451,243

Investments

At June 30, 2011, cash and investments consist of the following (in thousands):

U.S. Government Agencies	310,889
Medium Term Notes	9,622
Commercial Paper	7,772
Local Agency Investment Fund	50,079
Guaranteed Investment Contracts	4,745
Santa Clara County Investment Pool	171
Mutual Funds	39,309
Money Market Funds	233
Nonnegotiable Certificates of Deposi	3,442
Total Investments	426,262
Carrying amount of cash	24,981
Total Cash and Investments	$ 451,243

As of June 30, 2011, the District's investment in the State investment pool (LAIF) is $50,079,000. The total amount invested by all public agencies in LAIF at that date is $66,352,784,000. Of that amount, 94.99 percent is invested in non-derivative financial products and 5.01 percent in asset-backed securities and medium-term and short-term structured notes. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in LAIF.

As of June 30, 2011, the District's investment in the Santa Clara County Investment Pool (Pool) is $171,000 which is restricted for interest and redemption of the 1963 water utility bonds. The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool. Participants' equity in the Pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. The value of the District shares in the Pool, is determined on an amortized cost basis, which is different than the fair value of the District's position in the Pool. The District's investment in the Pool is stated at fair value, available upon demand and considered a cash equivalent.

Authorized Investments by the District

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District. The following also identifies certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This does not address the District's investments of debt proceeds held by fiscal agents that are governed by

the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the Entity's investment policy.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Government Agency Issues (A)	5 years	N/A	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	1 year	AA-	30%	3.6%
Nonnegotiable Time Certificates of Deposit	1 year	N/A	5%	$100,000 & FDIC Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	3 years	AA-	15%	1.8%
Taxable Municipal Obligations	5 years	AAA	None	12.0%
California Local Agency Investment Fund (B)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	10.0%
Money Market Account with Union Bank	N/A	N/A	None	12.0%

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation of America, the Tennessee Valley Authority.

(B) LAIF will accept no more than $50 million of an agency's unrestricted funds while placing no constrains on funds relating to unspent bond proceeds.

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of the District's revenue bond resolutions and Installment Purchase Agreement for the 2003A Certificates of Participation (COP) and 2006A & 2006B Water Utility Revenue and Refunding Bonds, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee. As of June 30, 2011, the amount invested in assets held by fiscal agent amounted to $8.7 million for certificates of participation and $4.9 million for revenue bonds and was equal to or in excess of the amount required at that date.

As of June 30, 2011, the District also has $0.4m safe drinking water state revolving loan fund which is a reserve fund for debt service payment to the California State Department of Water Resources.

Restricted Cash and Investments for Capital Projects

The District has construction and acquisition funds from the 2007A Certificates of Participation (COP) which is used to pay for the capital projects on flood control and watershed improvements authorized by the COP indenture. At June 30, 2011, the balance of this fund is $3,342,000.

Additionally, the District has construction and acquisition funds from the 2007B Revenue COPs which is used to finance the cost of water utility system improvement projects. At June 30, 2011, the balance of this fund is $7,772,000.

Restricted Cash and Investments for Watershed Management Projects

The District has entered into certain cost sharing agreements with the U.S. Army Corps of Engineers (the Corps). Under these agreements the District is required to deposit monies into escrow accounts to be used by the Corps for watershed management projects. At June 30, 2011 the District's restricted deposits held in escrow for construction of the Guadalupe Watershed and Clean Safe Creek & Natural Flood management projects amounted to $99,688.

Authorized Investments by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District ordinances, bond indentures or State statutes. The following table identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations (A)	N/A	N/A
U.S. Agency Securities (B)	N/A	N/A
State Obligations (C)	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, bankers acceptances	365 days	A-1
FDIC Insured Deposit (D)	N/A	N/A
Money Market Funds	N/A	AAAm
Collateralized Repurchase Agreements (E)	N/A	A-1
Investment Agreements (F)	N/A	AAA
Investment Approved in Writing by the Certificate Insurer (G)	N/A	N/A

(A) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

(B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities

which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMAs"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMAs"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

(C) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P.

(D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than $3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(E) Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or"A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

(F) Investment agreements, guaranteed investment contracts, funding agreement, or any other form of corporate note representing the unconditional obligations of entities or agencies with the unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody's and S&P.

(G) Any investment approved in writing by the Certificate Insurer.

Interest Rate Risk

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District generally manages its own interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the District's investments by maturity or earliest call date (in thousands):

	Total	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. Government Agencies	235,546	83,335	98,185	54,026	-
U.S. Government Agencies - Callable	75,343	-	29,025	46,318	-
Medium Term Notes	9,622	-	9,622	-	-
Commercial Paper	7,772	7,772	-	-	-
Local Agency Investment Fund	50,079	50,079	-	-	-
Guaranteed Investment Contracts	4,745	-	-	-	4,745
Santa Clara County Investment Pool	171	171	-	-	-
Mutual Funds	39,309	39,309	-	-	-
Money Market Funds	233	233	-	-	-
Nonnegotiable Certificates of Deposit	3,442	3,442	-	-	-
Total Investments	$ 426,262	$ 184,341	$ 136,832	$ 100,344	$ 4,745

Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements and the actual rating as of June 30, 2011 for each investment type as provided by Standard and Poor's (in thousands):

		Minimum Legal	Rating as of Year-end			
	Total	Rating	AAA	AA	A-1	Not Rated
U.S. Government Agencies	$ 310,889	AA-	$ 310,889	$ -	$ -	$ -
Medium Term notes	9,622	AA-	9,622	-	-	-
Commercial Paper	7,772	A-1	-	-	7,772	-
Local Agency Investment Fund	50,079	N/A	-	-	-	50,079
Guaranteed Investment Contracts	4,745	N/A	-	-	-	4,745
Santa Clara County Investment Pool	171	N/A	-	-	-	171
Mutual Funds	39,309	AAA	39,309	-	-	-
Money Market Funds	233	N/A	-	-	-	233
Nonnegotiable Certificates of Deposit	3,442	N/A	-	-	-	3,442
Total Investments	$ 426,262		$ 359,820	$ -	$ 7,772	$ 58,670

Concentration of Credit Risk

The District's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code. However, the District is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual District Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2011, those investments consisted of (in thousands):

Issuer	Investment Type	Reported Amount
District-Wide		
Federal Home Loan Mortgage Corp.	U.S. Government Agency	$45,206
Federal National Mortgage Association	U.S. Government Agency	70,985
Federal Home Loan Bank	U.S. Government Agency	146,351
Federal Farm Credit Bank	U.S. Government Agency	48,346

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the District's cash on deposit. All of the District's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the District's name.

(4) REIMBURSEMENT OF CAPITAL COSTS

The District derives certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following is a summary of such reimbursements in fiscal year 2010/11 (in thousands):

	Governmental Activity	Business-Type Activity
Local Agencies:		
City of San Jose	$ 9	$ 2,366
City of Morgan Hill	220	-
County of Santa Clara	-	236
San Benito County Water District	-	1,636
State Agencies:		
Department of Water Resources	14,919	829
State Coastal Conservancy	867	-
Federal Agencies:		
US Department of Agriculture, National Resource Conservation Service	3,472	-
US Department of Interior	-	5,376
Total	$ 19,487	$ 10,443

(5) INVESTMENT INCOME

The District earns income from the investment of cash not required for current expenditures. Beginning after June 15, 1997, the Governmental Accounting Standard Board issued GASB pronouncement number 31 to establish accounting and financial reporting standards for all investments. One provision of this standard was to report investments at fair value in the balance sheets. Because of this requirement, investment income must be adjusted upwards or downwards to reflect the fair value change from one fiscal year to the next fiscal year. In making the adjustment, the investment income earned directly by the investments is modified.

The following represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted investment income at June 30, 2011 (in thousands):

	Interest as Reported	FY 2011 GASB 31 Fair Value Adjustment	Interest Earned Before Adjustment
Fund:			
General	$ 57	$ (125)	$ 182
Watershed & Stream Steward	1,099	(579)	1,678
Clean, Safe, Creek	1,352	(550)	1,902
COP Debt Service	346	-	346
COP Construction	6	-	6
Water Enterprise	1,779	(546)	2,325
Equipment	21	(12)	33
Risk Insurance	137	(51)	188
Total Interest	$ 4,797	$ (1,863)	$ 6,660

(6) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 was as follows (in thousands):

	Balance July 1, 2010	Additions	Deletions	Transfers / Reclassed	Balance June 30, 2011
Governmental Activities					
Nondepreciable capital assets:					
Land	$ 146,082	$ 6,041	$ -	$ -	$ 152,123
Intangibles - easement	2,387	159	-	-	2,546
Construction in progress	345,558	41,494	-	(46,830)	340,222
Total nondepreciable capital assets	494,027	47,694	-	(46,830)	494,891
Depreciable capital assets:					
Buildings	37,504	-	-	-	37,504
Structures and improvements	541,236	-	-	45,284	586,520
Equipment:					
Governmental funds	16,768	95	(81)	1,546	18,328
Internal sevice funds	17,469	1,769	-	(649)	18,589
Total depreciable capital assets	612,977	1,864	(81)	46,181	660,941
Less accumulated depreciation					
Buildings	(7,889)	(750)	-	-	(8,639)
Structures and improvements	(61,486)	(6,726)	-	-	(68,212)
Equipment:					
Governmental funds	(11,153)	(1,184)	-	-	(12,337)
Internal sevice funds	(12,227)	(1,161)	-	632	(12,756)
Total accumulated depreciation	(92,755)	(9,821)	-	632	(101,944)
Net depreciable capital assets	520,222	(7,957)	(81)	46,813	558,997
Total capital assets, net	$ 1,014,249	$ 39,737	$ (81)	$ (17)	$ 1,053,888
Business-type activity					
Nondepreciable capital assets:					
Land	$ 17,594	$ -	$ -	$ -	$ 17,594
Construction in progress	227,345	42,859	-	(17,492)	252,712
Total nondepreciable capital assets	244,939	42,859	-	(17,492)	270,306
Depreciable capital assets:					
Contract water and storage rights	141,477	9,060	-	-	150,537
Buildings	1,722	-	-	1,270	2,992
Structures and improvements	576,817	-	-	16,222	593,039
Equipment	20,050	39	-	-	20,089
Total depreciable capital assets	740,066	9,099	-	17,492	766,657
Less accumulated depreciation and amortization					
Contract water and storage rights	(80,620)	(9,623)	-	-	(90,243)
Buildings	(126)	(47)	-	-	(173)
Structures and improvements	(186,160)	(10,893)	-	-	(197,053)
Equipment:	(11,491)	(1,376)	-	-	(12,867)
Total accumulated depreciation and amortization	(278,397)	(21,939)	-	-	(300,336)
Net depreciable capital assets	461,669	(12,840)	-	17,492	466,321
Total capital assets, net	$ 706,608	$ 30,019	$ -	$ -	$ 736,627

During fiscal year 2010-11, new construction in progress increased by $41.5 million in the governmental activities. The breakdown of additions to the construction in progress was as follows: $2.2 million to the general fund, $23.1 million to the watersheds, and $16.2 million to the Clean Safe Creek & Natural Flood Protection Fund. There were 48 projects in progress during the fiscal year with the major projects listed below (in millions):

- Lower Silver Creek-R5-6 N. Babb to Cunningham - $8.7
- Guadalupe River-Upper, Southern Pacific Railroad Bridge to Blossom Hill Road (Reach 7-12) - $7.1
- Guadalupe River-Upper I-280 to Southern Pacific Railroad Bridge (Reach 6) - $6.8
- Lower Berryessa Creek, Lower Penitencia to Calaveras - $3.6
- Almaden & Winfield Campus, Small Capital Improvements - $2.0
- Uvas Llagas Creek Design – Buena Vista Road to Wright Avenue - $2.0
- Permanente Creek, San Francisco Bay to Foothill Expressway - $1.8
- Pond A8 Applied Study Construction - $1.6

New construction in progress increased in the business-type activities by $42.9 million. Fifty-five projects were in progress during the fiscal year with major project listed below (in millions):

- South Bay Advanced Recycled Water Treatment Plant - $11.7
- Pacheco Pumping Plant Adjustable Speed Drives Replacement - $4.5
- Santa Teresa Water Treatment Plant Incompatible Materials - $3.2
- Dam Safety Program Seismic Stability - $2.8
- Rinconada Water Treatment Plant Chemical System Upgrade - $2.5
- Recycled Water South County Master Plan Implementation, Short Term - $2.2
- Santa Clara Conduit SVI-CPP - $1.9
- Penitencia Water Treatment Plant Standby Power System Upgrade - $1.4

Depreciation expense was charged to projects of the primary government as follows (in thousands):

General government	$ 2,181
Watersheds	6,480
Capital assets held by the District's internal service funds are charged to the various functions based on their usage of assets.	1,160
Total depreciation expense – governmental activities	$ 9,821
Total depreciation and amortization expense – business-type activity	
Water enterprise	$21,937

(7) SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

On December 17, 2002, the District Board of Directors authorized a commercial paper program for financing primarily Water Utility capital expenditures. The commercial paper program allows the District to finance capital expenditures while taking advantage of short term rates. This program will be used in conjunction with issuing long-term liabilities to obtain the least cost financing for the District.

There was no commercial paper debt outstanding as of June 30, 2011.

(b) Long-term liabilities

The District's long-term liabilities outstanding consisted of the following (in thousands):

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	June 30, 2011	Due Within One Year
General long-term obligations					
Certificates of participation					
2003A Certificates of participation	2024	2 - 4.625%	85,715	$ 57,460	$ 5,100
2004A Certificates of participation	2024	2.5 - 5%	32,965	15,585	2,275
2007 Certificates of participation	2030	4% - 5%	78,780	70,115	2,345
Compensated absences				12,173	1,746
Claims payable				6,819	476
Other post employment benefits				6,056	-
Deferred amount on refunding				(6,968)	(483)
Premium on refunded debt				5,921	383
Total general long-term obligations				$ 167,161	$ 11,842
Enterprise Fund Debt					
1963 Water utility bonds - general obligation					
Series D	2012	2.25 - 7%	$ 8,850	$ 405	$ 405
2006A Water revenue bond	2035	3.5% - 5%	74,265	65,635	1,970
2006B Water revenue bond	2035	5.15%-5.31%	25,570	23,390	540
2007A Water revenue COP bond	2037	4% - 5.0%	77,270	74,585	1,430
2007B Water revenue COP bond	2037	5.55%-floating	53,730	51,830	1,020
Bond discount				(868)	(38)
Deferred amount on refunding				(2,442)	(123)
Deferrend interest rate swap				(7,289)	(281)
Premium on debt issuance				2,755	106
Compensated absences				7,706	1,105
Other post employment benefits				3,872	-
Semitropic water banking agreement	2035		46,900	6,045	-
State revolving fund loan	2027		6,350	5,711	266
Litigation claim				6,414	-
Total enterprise fund debt				$ 237,749	$ 6,400

The following is a summary of changes in long-term liabilities as of June 30, 2011 (in thousands):

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011	Due Withn One Year
General Long-Term Obligations					
2003A COP	$ 62,215	$ -	$ (4,755)	$ 57,460	$ 5,100
2004A COP	17,875	-	(2,290)	15,585	2,275
2007A COP	72,350	-	(2,235)	70,115	2,345
Compensated absences	12,137	6,181	(6,144)	12,174	1,746
Claims payable	7,606	-	(787)	6,819	476
Other post employment benefits	3,781	2,275	-	6,056	-
Deferred amount on refunding	(7,451)	-	482	(6,969)	(483)
Premium on refunded debt	6,305	-	(384)	5,921	383
Total general long-term obligations	$ 174,818	$ 8,456	$ (16,113)	$ 167,161	$ 11,842
Enterprise Fund Debt					
1963 Water Utility bonds	$ 910	$ -	$ (505)	$ 405	$ 405
2006A revenue bonds	67,535	-	(1,900)	65,635	1,970
2006B revenue bonds	23,905	-	(515)	23,390	540
2007A COP revenue bonds	75,960	-	(1,375)	74,585	1,430
2007B COP revenue bonds	52,800	-	(970)	51,830	1,020
Bond discount on refunding	(906)	-	38	(868)	(38)
Deferred amount on refunding	(2,564)	-	122	(2,442)	(123)
Deferred interest rate swap	(7,570)	-	281	(7,289)	(281)
Premium on debt issuance	2,861	-	(106)	2,755	106
Compensated absences	7,679	4,565	(4,538)	7,706	1,105
Other post employment benefits	2,389	1,483	-	3,872	-
Semitropic water banking agreement	5,311	734	-	6,045	-
State revolving fund loan	5,971	-	(260)	5,711	266
Litigation claim	6,090	324	-	6,414	-
Total enterprise debt	$ 240,371	$ 7,106	$ (9,728)	$ 237,749	$ 6,400

The aggregate maturities of long-term debt are as follows (in thousands):

	Governmental activities		Business-type activity	
Year ending June 30:	Principal	Interest	Principal	Interest and amortization
2012	$ 9,720	$ 6,743	$ 5,631	$ 11,067
2013	10,250	12,044	5,473	10,821
2014	8,170	5,730	5,714	10,567
2015	8,475	5,363	5,971	10,313
2016	7,715	4,982	6,268	10,021
2017 - 2021	41,810	19,537	36,119	45,293
2022 - 2026	36,595	9,786	45,547	35,863
2027 - 2031	20,425	2,615	55,963	24,389
2032 - 2036	-	-	46,365	10,502
2037	-	-	8,505	649
Total Requirements	143,160	$ 66,800	221,556	$ 169,485
Add: unamortized premium on issuance	$ 5,921		2,755	
Less: unamortized discount and deferred amount on refunding	(6,968)		(3,310)	
Less: deferred interest rate swap	-		(7,289)	
Add: compensated absences	12,173		7,706	
Add: claims payable	6,819		-	
Add: other post employment benefits	6,056		3,872	
Add: semitropic water banking agreement	-		6,045	
Add: litigation claim	-		6,414	
Total principal outstanding at June 30, 2011	$ 167,161		$ 237,749	

Governmental Activities

The following provides a brief description of the District's debt for governmental activities outstanding as of June 30, 2011:

2003 Certificates of Participation

In February 2003, the District issued $85,715,000 of Refunding and Improvement Certificates of Participation. The proceeds of the 2003A Certificates were used to refinance $76,445,000 of the 1994A Certificates of Participation and new certificates were issued to finance the cost

of certain other flood control improvements. The District has pledged its flood control system's revenue to secure the semi-annual installments of debt service payment.

2004 Certificates of Participation

In January 2004, the District issued $32,965,000 of Refunding and Improvement Certificates of Participation. The proceeds of the 2004A Certificates were used to refinance $38,915,000 of the remaining 1994A Certificates of Participation and new certificates were issued to finance the cost of certain other flood control improvements. The District purchased a surety bond to fund the Debt Service Reserve Fund. The District has pledged its flood control system's revenue to secure the semi-annual installments of debt service payment.

2007 Certificates of Participation

In February 2007, the District issued $78,780,000 of Refunding and Improvement Certificates of Participation, Series 2007A. The proceeds of the 2007A Certificates of Participation were used to refinance $73,050,000 of the remaining 2000A and 2000B Certificates of Participation and new certificates were issued to finance the cost of certain other flood control improvements. The District purchased a surety bond to fund the Debt Service Reserve Fund. Additionally, the District used funds accumulated in the 2000A and 2000B Debt Service Reserve Fund to reduce the size of the 2007A issuance. As a result, the 2000A and 2000B Certificates of Participation are considered defeased and the liabilities have been removed from the Statement of Net Assets. The District has pledged its flood control system's revenue to secure the semi-annual installments of debt service payment.

Claims Payable

The District is self-insured and reports all its risk management activities in its Risk Management Internal Service Fund. Detailed information and calculation of the claims payable account balance are explained in Note 14, Risk Management.

Business-type Activity

The following provides a brief description of the District's debt for business-type activity outstanding as of June 30, 2011:

1963 Water Bonds

The Water Bonds are general obligations of the District. These bonds were issued pursuant to the provisions of Resolution No. W-1.8, adopted November 12, 1963. Proceeds from these bonds have been used for construction of a comprehensive water treatment and distribution system. Debt service payments are funded through ad valorem taxes on property.

2006 Water Enterprise Revenue Bonds

In December 2006, the District issued $99,835,000 of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B. The proceeds of $57,415,000 of the 2006A and 2006B Bonds were used to refinance $55,265,000 of the remaining 2000A and 2000B and the proceeds of $42,420,000 of 2006A and 2006B Bonds were used to repay approximately $40.9 million of commercial paper notes. The District funded the 2006A Debt

Service Reserve Fund with proceeds of the 2000A Debt Service Reserve Fund and purchased a surety bond to fund the 2006B Debt Service Reserve Fund. Additionally, the District used funds accumulated in the 2000A and 2000B Debt Service Reserve Funds, and other 2000A and 2000B Bonds accounts to reduce the size of the 2006A and 2006B Bonds issuance. As a result, the 2000A and 2000B Bonds are considered defeased and the liabilities have been removed from the Statement of Net Assets. The District has pledged its net water utility revenues to secure the semi-annual debt service payments.

2007 Water Enterprise Revenue Certificates of Participation

In October 2007, the District issued $131,000,000 of Water Utility Revenue Certificates of Participation Bonds, Series 2007A and Taxable Series 2007B. The proceeds of the 2007A and 2007B bonds will be used to finance capital construction projects in the Water Utility Enterprise. The District funded the 2007A Debt Reserve Fund by purchasing a surety. The 2007A issuance was $77,270,000 fixed rate bonds with a 30 year maturity. The 2007B issuance of $53,730,000 are floating rate notes based on the three month LIBOR rate plus 32 basis points with a 30 year maturity. The District has pledged its net water utility revenues to secure the semi-annual debt service payments for the 2007A issuance and quarterly debt service payments for the 2007B issuance.

The District entered into two interest rate locks in anticipation of the issuance of the 2007 Series A and B. The interest rate locks successfully locked in the interest rate the District had been projecting in its water rate financing models on a net present value basis. The interest rate locks were terminated at the time of bonds issuance in which the District paid the counterparties a termination fee in the amount of $8.5 million.

Semitropic Water Banking Agreement

In December 1995, the Santa Clara Valley Water District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The Santa Clara Valley Water District's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. At June 30, 2011, the District has paid $40.9 million towards the obligation of this agreement.

State Revolving Fund Loan

In November 2004, the District entered into a loan agreement with the State of California Department of Water Resources, on behalf of State of California Department of Health Services, under the Safe Drinking Water State Revolving Fund Law of 1997 for $6.3 million. The loan was used to fund the construction of filter-to-waste and wash water clarification projects at the Santa Teresa Water Treatment Plant. At June 30, 2011, the District has paid $639 thousand towards the principal balance of this obligation.

Litigation Claim

In fiscal year 2009, the District recorded a liability of $5.9 million, which was the potential judgment amount from the tentative ruling on the case Great Oaks Water Company vs. Santa Clara Valley Water District. On February 3, 2010, the judge issued Judgment After Trial and

ordered the District to pay Great Oaks Water Company $5.9 million plus post judgment interest of $886.62 per day. The District recorded post judgment interest of $160 thousand in fiscal year 2009-10 and $324 thousand in fiscal year 2010-11. Additional information regarding this litigation is disclosed in Note 18 (a), Contingencies.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized. Prior to fiscal year 2009, all funds reimbursed the general fund on a pro-rata basis of salary expense cost for the payment of these payouts at the end of each year and the funds were held in the reserve as designated for compensated absences. On June 24, 2008, the Board authorized the transfer of $17.7 million from the compensated absences reserve to a trust fund to prefund other post employment benefits. Effective fiscal year 2008, the compensated absences liability for the year has been recognized in the District's enterprise funds.

Other Post Employment Benefits (OPEB)

The District provides post-employment healthcare benefits to retired employees and/or their surviving spouses in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors. The District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployement Benefits Other than Pensions* during fiscal year 2007-08. OPEB expense and obligation are recognized in the proprietary funds in full accrual basis while governmental funds are in modified accrual basis. OPEB expense and obligation reported in government wide financial statements are recognized in full accrual basis. Additional information on OPEB is disclosed in Note 13, Post Employment Benefits.

Compliance with Bond Covenants

Resolutions associated with the District's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. The District believes it is in compliance with all significant covenants, limitations, and restrictions.

(8) PROPERTY TAXES AND BENEFIT ASSESSMENTS

The District derives certain revenues from the assessment of property tax parcel levies and the levy of benefit assessments and a special parcel tax. The property tax levy is composed of three categories: (1) a 1 percent tax allocation; (2) voter approved levy to service the 1963 Water General Obligation bonds (G.O. bonds); and (3) voter approved levy to repay capital and operating costs related to imported water from the State Water Project. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. In November 2000, voters approved a 15-year special parcel tax to fund the countywide Clean, Safe Creeks and Natural Flood Protection Program. The levy became effective July 1, 2001 and is based on the proportionate storm water runoff for each property.

Property tax and benefit assessment revenues recorded for the year ended June 30, 2011 are as follow (in thousands):

	General Fund	Special Revenue Funds	Water Enterprise Fund
Property taxes:			
1% tax allocation	$ 4,685	$ 47,567	$ 4,165
Special parcel tax	-	33,965	-
Voter approved indebtedness:			
State water	-	-	18,566
G.O. bonds	-	-	450
Total taxes	4,685	81,532	23,181
Benefit assessments	-	19,091	-
Total property taxes and benefit assessments	$ 4,685	$ 100,623	$ 23,181

The County is responsible for the assessment, collection, and apportionment of property taxes for the District. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). The District is responsible for determining the amount of benefit assessment, special parcel tax, and State Water Project Debt Service. Secured property taxes and benefit assessments are each payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for as collected and remitted by the District within the governmental fund revenues. The proprietary fund records property taxes as they are levied. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

The District has elected to participate in the “Teeter Plan” offered by the County whereby the District receives 100 percent of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes.

(9) PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was $4.8 million.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues in the amount of $4.5 million are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13). This amount is currently booked as Due from Other Governments with an offset to Deferred Revenue account until the tax revenue meets the availability criterion. In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10). The remaining $300 thousand were recognized as revenues in the proprietary fund financial statement and government-wide financial statements in fiscal year 2009-10.

(10) FUND BALANCES

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category represents net assets of the District, not restricted for any project or other purpose.

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily to the extent to which the District is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

- Nonspendable fund balance – amounts that cannot be spent because they are either a) not spendable because of their form b) must be maintained intact pursuant to legal or contractual requirements.

- Restricted fund balance – amounts that are subject to limitations imposed by either a) creditors, grantors, contributors or laws and regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance - amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority (Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation would need to occur no later than the close of the reporting period.

- Assigned fund balance – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body (e.g. finance committee) or an official designated for that purpose.

- Unassigned fund balance – residual net resources in the District's general fund in excess of what can be properly classified in one of the four categories already described.

The various reserves and designations are established by actions of the Board of Directors and can be increased, reduced or eliminated by similar actions with the exception of encumbrances on the assigned fund balance, which can be reduced or eliminated without the action of the Board of Directors. Detailed schedule of fund balances as of June 30, 2011 is as follows (in thousands):

	General	Watershed & Stream Steward	Clean, Safe Creek & Natural Flood Protection Program (CSC)	COP Debt Service	COP Construc-tion Fund	Total Govern-mental Funds
Restricted Fund Balance:						
Debt Service	$ -	$ -	$ -	$ 8,689	$ -	$ 8,689
Debt Proceeds	-	-	-	-	3,342	3,342
CSC-Encumbrance	-	-	21,519	-	-	21,519
CSC-Market Valuation	-	-	886	-	-	886
CSC-Operating and Capital Contingencies	-	-	43,895	-	-	43,895
CSC-Other Activities	-	-	4,058	-	-	4,058
CSC-Special Purpose Environment Enhance	-	-	14,659	-	-	14,659
CSC-Newly Improved Creeks	-	-	4,356	-	-	4,356
CSC-Special Purpose Open Space Trails	-	-	6,760	-	-	6,760
CSC-Current Authorized Capital Projects	-	-	55,208	-	-	55,208
Total restricted fund balance	-	-	151,341	8,689	3,342	163,372
Committed Fund Balance:						
Operating & Capital Contingencies	7,248	43,080	-	-	-	50,328
Current Authorized Capital Projects	617	42,328	-	-	-	42,945
Market Valuation	80	775	-	-	-	855
Total committed fund balance	7,945	86,183	-	-	-	94,128
Assigned Fund Balance:						
Encumbrances	3,157	43,486	-	-	-	46,643
Total assigned fund balance	3,157	43,486	-	-	-	46,643
Total fund balances	$ 11,102	$ 129,669	$ 151,341	$ 8,689	$ 3,342	$ 304,143

(11) NET ASSETS

In the fund financial statements, the proprietary funds report net assets as nonspendable, restricted, committed, assigned or unassigned, similar to GASB 54 categories. The District elected to modify its reserve policy that classified both governmental fund balances and proprietary net assets based on GASB 54 categories.

Below is the detailed schedule of the proprietary funds' net assets as of June 30, 2011:

	Water Enterprise Fund	State Projects Fund	Equipment Fund	Risk Management Fund
Restricted Net Assets				
Debt Service	$ 4,675	$ -	$ -	$ -
State Revolving Loan Requirement	401	-	-	-
San Felipe Emergency Reserve	3,924	-	-	-
Operating Reserve	11,966	-	-	-
Rate Stabilization	1,647	-	-	-
State Water Projects	-	4,211	-	-
Total restricted net assets	22,613	4,211	-	-
Committed Net Assets				
Operating & Capital Contingencies	4,597	-	656	-
Currently Authorized Projects	14,574	-	-	-
Market Valuation	673	-	13	79
Property Self-Insurance/Catastrophic	-	-	-	6,420
Floating Rate Debt Payment Stabilization	594	-	-	-
Supplemental Water Supply	9,102	-	-	-
Total committed net assets	29,540	-	669	6,499
Assigned Net Assets				
Encumbrances	67,209	-	1,041	128
Total assigned net assets	67,209	-	1,041	128
Investment in capital assets, net of related debt	500,947	23,610	5,825	8
Net Assets	$ 620,309	$ 27,821	$ 7,535	$ 6,635

(12) EMPLOYEES' RETIREMENT PLAN

Plan Description

All permanent employees are eligible to participate in the miscellaneous plan with the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries based on member's years of service, age and final compensation. District employees vest after five years of service and are eligible to receive retirement benefits at age fifty. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District's ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

Funding Status and Progress

District employees are required to contribute 8.0 percent of their annual covered salary to CalPERS. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the District for fiscal year 2010/11 was 13.532 percent. In January 2003, the District amended its contract with CalPERS to include the enhanced retirement formula of 2.5% at 55. The District employees share 2.5% of the cost of this amended retirement plan. The contribution requirements of plan members are established by State statute and employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2010/11, the District's annual pension cost of $11,325,005 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses) and (b) projected annual salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of CalPERS assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. All annual pension costs are paid upon receipt of invoices.

THREE-YEAR TREND INFORMATION FOR CalPERS
(Dollars in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	11,027	100%	-
6/30/2010	10,962	100%	-
6/30/2011	11,325	100%	-

FUNDED STATUS OF PLAN
(Dollars in Thousands)

Actuarial Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability/ (Excess Assets) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	Unfunded (Overfunded) Actuarial Accrued Liability As a % of Payroll [(a)-(b)]/(c)
6/30/2008	400,906	351,175	49,731	87.6%	79,154	62.8%
6/30/2009	458,952	375,014	83,938	81.7%	81,324	103.2%
6/30/2010	487,009	400,422	86,587	82.2%	81,624	106.1%

(13) POST-EMPLOYMENT BENEFITS

The District provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses who meet the eligibility requirements and elect the option. For employees who retired prior to June 30, 1988 with at least 10 years of service, the District provides reimbursement of medical premiums of $165 per month payable quarterly.

For employees who retired after June 30, 1988, the District pays 100 percent of medical premiums provided the employee has 10 years of service with the District, the employee retires from the District at minimum age 50, and the employee is receiving a monthly allowance from CalPERS. For employees who retired after June 30, 1990, the District provides additional medical coverage for one dependent provided the employee has 15 years of service with the District and their dependent does not have coverage from a current employer. For employees who were hired after March 1, 2007, the District pays 100 percent of the medical premiums provided the employee has 15 years of continuous service. An employee retiring with 20 years or more of continuous service will receive medical coverage with the premium paid by the District for the employee plus one eligible dependent.

As of August 1, 2007, all current retirees not yet 65 years of age and Medicare eligible and all future retirees who are Medicare eligible must enroll themselves in Medicare when they reach

the eligibility date for Medicare. Their Medicare eligible dependents, who are enrolled in the District's health plan, must also enroll in Medicare upon their eligibility date. The District reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

Employees retiring from the unclassified group are eligible for dental, vision, and life insurance benefits. The District pays 100 percent of the medical premium to those that retire with 10 years of service and retire from the District at a minimum age of 50, and are receiving a monthly allowance from CalPERS. The District provides medical, dental, and vision for the retiree and one eligible dependent that retires with 15 or more years of continuous District service. Medical, dental, and vision coverage is paid for retired employees and two eligible dependents with 25 or more years of continuous service. For unclassified employees who were hired after March 1, 2007, the District pays 100 percent of the medical premium provided the employee has 15 years of continuous service. An employee retiring with 20 years or more of continuous service will receive medical coverage with the premium paid by the District for the employee plus one eligible dependent. As of August 1, 2007, all current retirees not yet 65 years of age and Medicare eligible and all future retirees who are Medicare eligible must enroll themselves in Medicare when they reach the eligibility date for Medicare. Their Medicare eligible dependents, who are enrolled in the District's health plan, must also enroll in Medicare upon their eligibility date. The District reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly. The District provides $50,000 life insurance upon retirement with a five-year phase out in declining increments of $10,000 per year after retirement.

As of June 30, 2011, there were 311 retirees and surviving spouses and 743 active employees eligible for the post employment benefits.

During fiscal year 2007-08, the District implemented the provisions of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other than Pensions.* This Statement establishes standards for the measurement, recognition, and financial reporting for employers providing postemployment benefits other than pensions (OPEB). The provisions of this Statement are implemented prospectively and do not affect prior year's financial statements.

On June 24, 2008, the District's Board of Directors adopted a resolution approving the agreement and election of the District to prefund OPEB through CalPERS unders its California Employer's Retiree Benefit Trust (CERBT) Program. On September 9, 2008, the District joined CERBT, an agent multiple-employer plan consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Employees' Retirement System, P. O. Box 942703, Sacramento, CA 94229-2703.

Funding Policy

The District's policy is to prefund these benefits as part of its multi-year financial planning strategy. On June 24, 2008, the Board of Directors approved the reallocation of $17.7 million from its existing reserve for the initial prefunding of the unfunded liability for the first year of reporting. Subsequent years' funding, pursuant to the annual budget approved by the Board of Directors, would be phased in to gradually reach full funding by the sixth year in order to

limit its immediate impact on groundwater charge increases and the funding of core services within limited available revenues.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and the amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for fiscal year 2010-11, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 13,860,869
Interest on net OPEB obligation	456,600
Adjustment to annual required contribution	(387,100)
Annual OPEB cost (expense)	13,930,369
Contributions made	(10,172,952)
Increase (decrease) in Net OPEB obligation	3,757,417
Net OPEB obligation, June 30, 2010	6,170,273
Net OPEB obligation, June 30, 2011	$ 9,927,690

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the current year and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	$ 14,638,000	164.35%	$ 649,032
6/30/2010	13,306,561	58.51%	6,170,273
6/30/2011	13,930,369	73.03%	9,927,690

Funded Status and Funding Progress

As of December 31, 2008, the latest valuation date, the funded status of the OPEB plan, was as follows:

Actuarial accrued liability (AAL)	$ 150,156,794
Actuarial value of plan assets	$ 19,580,319
Unfunded actuarial accrued liability (UAAL)	$ 130,576,475
Funded ratio (actuarial value of plan assets/AAL)	13.0%
Covered payroll	$ 76,369,316
UAAL as a percentage of covered payroll	171.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made in the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2008 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a discount rate of 7.4% and a 3% inflation rate. Healthcare cost trend rates ranged from an initial rate range of 9% to 4.5 percent. The unfunded liability is being amortized as a percent of payroll over 30 years on a closed basis. The remaining years in amortization period at June 30, 2011 was 27 years.

(14) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District reports all of its risk management activities in its Risk Management Internal Service Fund.

The District's deductibles and maximum coverage are as follows (in thousands):

Coverage Descriptions	Deductibles	Commercial Insurance Coverage
General liability	$2,000	$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	250,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	250,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These

losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2011, the liability for self-insurance claims was $6,819,000. This liability is the District's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Changes in the reported liability since June 30, 2009 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2009	$ 3,255	$ 4,526	$ 7,781
Current year premiums, incurred claims and changes in estimates	(111)	330	219
Claim payments	(117)	(277)	(394)
Claims payable at June 30, 2010	3,027	4,579	7,606
Current year premiums, incurred claims and changes in estimates	(571)	169	(402)
Claim payments	(25)	(360)	(385)
Claims payable at June 30, 2011	$ 2,431	$ 4,388	$ 6,819

(15) ADVANCES TO AND FROM OTHER FUNDS

There were no transactions related to advances to and from other funds during the fiscal year 2010-11.

(16) TRANSFERS IN AND OUT

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) move debt proceeds held in the construction fund to the funds incurring the construction expense.

In the year ended June 30, 2011, $15.9 million was transferred from the governmental funds to service debt payments; $0.3 million was transferred for the reimbursement OPEB expenses; $4.4 million was transferred for other operation matters; and $3.8 million was transferred to reimburse capital costs.

Interfund transfers for the year ended June 30, 2011, is as follows (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Water Enterprise	$ 189
Watershed & Stream Stewardship	Lower Peninsula Watershed	727
	West Valley Watershed	655
	Guadalupe Watershed	1,477
	Coyote Watershed	974
	Uvas/Llagas Watershed	122
	Clean Safe Creek & Natural Flood	550
Clean Safe Creek & Natural Flood	Watershed & Stream Stewardship	377
COP Debt Service Fund	General Fund	765
	Lower Peninsula Watershed	3,880
	West Valley Watershed	2,250
	Guadalupe Watershed	4,681
	Coyote Watershed	3,674
	Uvas/Llagas Watershed	629
Water Enterprise	General Fund	2,652
	Watershed & Stream Stewardship	348
State Water	Water Enterprise	439
Total interfund transfers		$ 24,389

(17) COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2011, the proprietary funds had open purchase commitments of approximately $68.4 million related to new or existing contracts and agreements. Governmental funds had encumbrances of approximately $68.2 million as reflected in the accompanying basic financial statements. These encumbrances represent commitments for the expenditure of funds and do not represent expenditures or liabilities.

(b) San Felipe Project Water Deliveries

The District has contracted with the U.S. Department of the Interior for water deliveries from the Central Valley Project through the San Felipe Division. The contract requires the District to operate and maintain Reach 1, Reach 2, and Reach 3 of the facilities.

During fiscal year 2006-07, the District amended this contract. The amended contract provided for compliance with the Central Valley Project Improvement Act and converted the

repayment of the San Felipe Division facilities from a water service contract to a repayment contract with fixed semi-annual payments. The semi-annual payments for January 2007 through July 2016 are $7,466,867. The amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

The estimated commitment for the payment of allocated capital and capital interest charges of the contracted water service component as of September 30, 2009 was $28,218,669. The total commitment, including applicable interest, of the repayment contract was $439,261,342. The remaining commitment as of June 30, 2011 was $372,059,540.

(c) Participation Rights in Storage Facilities

In December 1995, the District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The District's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering Tier 1 water. The agreement terminates in December 2035.

The District pays the program capital costs when storing and recovering Tier 1 water. As of June 30, 2011, the District has paid $41.6 million towards the obligation of this agreement. During the first 10 years the District has a reservation for the full 35 percent allocation; by January 1, 2006, if the District's contributions towards the program capital costs did not equal $46.9 million, the District's permanent storage allocation will be reduced. The District decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

The District currently has a storage allocation of 350,000 acre-feet. As of June 30, 2011, the District has 304,862 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of $18,174,000 has been recorded through fiscal year 2011.

(18) CONTINGENCIES

(a) Litigation

As a public entity and due to its size and its activities, at virtually all times, the District is a defendant, co-defendant, or cross-defendant in various court cases in which money damages are sought. The largest case in which the District is involved in currently is Great Oaks Water Company v. Santa Clara Valley Water District.

On February 3, 2010, the Honorable Kevin Murphy issued Judgment After Trial and decided that the District owes Great Oaks Water Company a refund of groundwater charges in the amount of $4,623,095.52 plus interest at 7% per annum. The award of pre-judgment interest as of December 1, 2009 amounts to $1,285,523.65. Judge Murphy also awarded post-judgment interest at the rate of $886.62 per day until the date of the entry of judgment. Judge Murphy also decided that the District owes Great Oaks Water Company damages in the amount of $1,306,830.00. Recovery of this damages amount is in the alternative to the award of refund described above, and is not subject to application of any interest.

The District does not believe that the decision regarding its 2005-06 groundwater production charges is supported by the record. The District has timely appealed the trial court's decision and a decision by the Sixth District Court of Appeal is anticipated in 2013.

In accordance with the requirements of *Statement of Financial Accounting Standards No. 5 – Accounting for Contingencies,* the District has recorded a liability in the amount of $5.93 million, which includes the Judgment After Trial decision amount plus interest in fiscal year 2008-09. The District recorded $160 thousand in fiscal year 2009-10 and $324 thousand in fiscal year 2010-11 as liability for the post-judgment interest from January 1, 2010 through June 30, 2011 at the rate of $886.62 per day. The accrual was presented under the caption "Litigation Claim" in the Statement of Net Assets – Proprietary Funds, and "Claims and Adjustments" in the Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds.

Other than the case noted above, the outcome of other lawsuits is not presently determinable. Counsel for the District has indicated that material losses, if any, arising from these lawsuits are adequately provided with self-insured District funds or under indemnification agreements or insurance coverage and therefore, would not have material effect on June 30, 2011 basic financial statements.

(b) Grants and Subventions

The District has received federal and state grants for specific purposes that are subject to review and audit. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

(c) Central Valley Project

On June 7, 1977, the District entered into a contract with the U.S. Bureau of Reclamation for water service from the San Felipe Division of the Federal Central Valley Project (CVP). The CVP water service provides for both agricultural operation and maintenance (O&M) and municipal and industrial (M&I) water deliveries to the District up to a total maximum annual entitlement of 152,500 acre-feet per year. The contract specified initial water rates for O&M and M&I water service and provided for periodic adjustments for the respective water rates in accordance with prevailing CVP water rate policies commencing in the year 1993 for the in-basin M&I rate component; 1996 for the agricultural O&M rate component; 2001 for the full agricultural water rate; and 2008 for the out-of-basin M&I rate component. The methodology of CVP water rate setting has historically recovered current year operating costs and the applicable construction costs over 50 years.

The District's initial CVP water rates were determined based on a November 1974 CVP water rate policy and estimated construction costs of the San Felipe Division. The actual construction costs of the San Felipe Division were significantly higher than the estimates used in the initial rate calculation, and changes in the Federal Reclamation Law during the 1980's have led to the development of new CVP water rate policies. These policies, coupled with the terms of the original contract, resulted in the District facing significant increases for repayment of the San Felipe Division.

In compliance with the Central Valley Improvement Act (CVPIA), the District entered into negotiations, along with all other CVP contractors, with the U.S. Bureau of Reclamation for

contract renewal. Because of concerns related to litigation challenging the renewal process, the District entered into an amended contract. The amendment maintained the basic provisions of the original contract, implemented provisions of CVPIA, and allowed the establishment of a fixed repayment for the San Felipe Division facilities.

(d) Perchlorate

In 2003, perchlorate was discovered at the Olin Corporation facility and over a wide area in the Llagas subbasin in South County, impacting a number of water supply wells. The investigation and clean-up of the contamination is under the jurisdiction of the Central Coast Regional Water Quality Control Board. As of November 2011, perchlorate is still present above the Maximum Contaminant Level in a few South County water supply wells and over a wide area of the subbasin. Olin's remedial efforts to date have been focused on clean-up of the site, including soil removal and groundwater treatment. Olin is in the process of beginning the clean-up of contaminated groundwater beyond the Olin site.


Santa Clara Valley
Water District

Required Supplementary Information


Santa Clara Valley
Water District

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Funding Progress - Other Post Retirement Benefit Plan

June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	([b-a]/c)
6/30/2007	$ -	$ 141,459,000	$ 141,459,000	0.0%	$ 78,300,000	180.7%
12/31/2008	$ 19,580,319	$ 150,156,794	$ 130,576,475	13.0%	$ 76,369,316	171.0%

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Budgeted Governmental Funds
For the Year Ended June 30, 2011
(Dollars in Thousands)

	General Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Property taxes	$ 4,666	$ 4,666	$ 4,685	$ 19
Use of money and property:				
Investment income	445	445	57	(388)
Rental	-	-	-	-
Reimbursement of capital costs	-	-	-	-
Other	84	84	121	37
Total revenues	5,195	5,195	4,863	(332)
Expenditures:				
Operating budget:				
Operations and operating projects	44,684	45,046	43,847	1,199
Debt service:				
Principal repayment	548	548	548	-
Interest and fiscal charges	220	220	218	2
Total operating budget	45,452	45,814	44,613	1,201
Capital budget:				
Capital improvement projects	2,139	2,634	1,468	1,166
Total expenditures	47,591	48,448	46,081	2,367
Excess (deficiency) of revenues over (under) expenditures	(42,396)	(43,253)	(41,218)	2,035
Other financing sources (uses):				
Intra-district overhead reimbursement	39,396	39,396	37,895	(1,501)
COP proceeds	-	-	-	-
Transfers in	189	189	189	-
Transfers out	-	(2,652)	(2,652)	-
Total other financing sources	39,585	36,933	35,432	(1,501)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	$ (2,811)	$ (6,320)	(5,786)	$ 534
Reconciliation of GAAP and budgetary basis:				
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			$ (1,768)	
Capital improvement projects			(1,422)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			1,702	
Capital improvement projects			639	
Fund Balances, beginning of year			17,737	
Fund Balances, end of year			11,102	

Watershed & Stream Stewardship				Clean, Safe Creeks & Natural Flood Protection			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
$ 47,269	$ 47,269	$ 47,567	$ 298	$ 33,803	$ 33,803	$ 33,965	$ 162
2,830	2,830	1,099	(1,731)	2,525	2,525	1,352	(1,173)
-	-	1,139	1,139	-	-	249	(4,399)
14,425	14,425	15,442	1,017	4,648	4,648	4,045	4,022
2,507	2,507	564	(1,943)	23	23	16	(7)
67,031	67,031	65,811	(1,220)	40,999	40,999	39,627	(1,395)
41,330	42,203	42,203	-	7,086	8,269	6,657	1,612
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
41,330	42,203	42,203	-	7,086	8,269	6,657	1,612
18,389	77,300	53,784	23,516	26,868	56,396	17,911	38,485
59,719	119,503	95,987	23,516	33,954	64,665	24,568	40,097
7,312	(52,472)	(30,176)	22,296	7,045	(23,666)	15,059	38,725
-	-	-	-	-	-	-	-
3,317	3,317	-	(3,317)	-	-	-	-
3,776	3,776	4,505	729	474	474	377	(97)
(822)	(1,170)	(725)	445	(373)	(373)	(550)	(177)
6,271	5,923	3,780	(2,143)	101	101	(173)	(274)
$ 13,583	$ (46,549)	(26,396)	$ 20,153	$ 7,146	$ (23,565)	14,886	$ 38,451
		$ (1,744)				$ (143)	
		(3,166)				(7,294)	
		1,303				1,684	
		33,119				2,810	
		126,553				139,398	
		129,669				151,341	

See accompanying notes to required supplementary information

SANTA CLARA VALLEY WATER DISTRICT

Notes to Required Supplementary Information
For the Year Ended June 30, 2011

The District annually adopts a budget in June to be effective July 1 for the ensuing fiscal year. Annual appropriated budgets are adopted for the general fund, special revenue funds, and for all proprietary funds. The COP construction and COP debt service funds are not budgeted.

Legal budgetary (expenditure) control is established at the fund level, further controlled within the fund at the category level. The categories are defined as the operating budget (operations and maintenance, debt service, and operating projects) and the capital budget (capital improvement projects) in the budget and actual budgetary basis schedules. The amounts stated therein as proposed expenditures become appropriations to the various District organization units. The Board may amend the budget by motion during the fiscal year. The District Chief Executive Officer is authorized to transfer appropriations within budget categories by fund. All unencumbered appropriations for operations and maintenance, operating projects and debt service lapse at fiscal year-end. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated. Unexpended appropriations for capital projects are carried forward until project completion or termination.

The budget process is based upon accounting for certain transactions on a basis other than the Generally Accepted Accounting Principles (GAAP) basis. The results of operations are presented in the budget and actual schedules in accordance with the budgetary basis to provide a meaningful comparison with the budget. The major differences between the budgetary basis and GAAP basis are as follows:

- Certain accruals (primarily accrued vacation and sick leave pay) are excluded from the budgetary basis because such amounts are budgeted on a cash basis.
- Year-end encumbrances are recognized as expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until incurred.
- Certain budgeted debt service expenditures in special revenue funds are recorded as operating transfers out on a GAAP basis.
- Intra-district overhead reimbursement on a budgetary basis is reflected as a reimbursement of expenditures on a GAAP basis.

Reported budget amounts reflect the annual budget as originally adopted and as subsequently amended by the District Board of Directors. The budget amounts are based on estimates of the District's expenditures/expenses and the proposed means of financing them. The final budget of capital improvement projects includes budget adjustments related to capital projects' period year balance forward. Actual expenditures for capital items, as in the case of special revenue funds, may vary significantly from budget due to timing of such expenditures.

Supplemental Information


Santa Clara Valley
Water District

Schedule of Revenues, Expenditures and Changes in Fund Balances – Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Funds

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Fund

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and
Changes in Fund Balances
Selected Watershed Activities Contained
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Lower Peninsula Watershed	West Valley Watershed
Revenues:		
Benefit assessments (Note 8)	$ 4,611	$ 2,909
Total revenues	4,611	2,909
Expenditures:		
Debt service:		
Interest and fiscal charges	4	4
Total expenditures	4	4
Excess (deficiency) of revenues over (under) expenditures	4,607	2,905
Other financing sources (uses):		
Transfers in (Note 16)	-	-
Transfers out (Note 16)	(4,607)	(2,905)
Total other financing sources (uses)	(4,607)	(2,905)
Net change in fund balances	-	-
Fund balances, beginning of year	-	-
Fund balances, end of year	$ -	$ -

Guadalupe Watershed	Coyote Watershed	Uvas/Llagas Watershed	Total
$ 6,167	$ 4,652	$ 752	$ 19,091
6,167	4,652	752	19,091
9	5	1	23
9	5	1	23
6,158	4,647	751	19,068
-	-	-	-
(6,158)	(4,647)	(751)	(19,068)
(6,158)	(4,647)	(751)	(19,068)
-	-	-	-
-	-	-	-
$ -	$ -	$ -	$ -

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Selected Watershed Activities Contained
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Lower Peninsula Watershed			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Benefit assessments	$ 4,621	$ 4,621	$ 4,611	$ (10)
Total revenues	4,621	4,621	4,611	(10)
Expenditures:				
Operating budget:				
Debt service:				
Principal repayment	1,992	1,992	2,067	(75)
Interest and fiscal charges	1,841	1,841	1,817	24
Total operating budget	3,833	3,833	3,884	(51)
Total expenditures	3,833	3,833	3,884	(51)
Excess (deficiency) of revenues over (under) expenditures	788	788	727	(61)
Other financing sources (uses):				
Transfers out	(788)	(788)	(727)	61
Total other financing sources	(788)	(788)	(727)	61
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	$ -	$ -	-	$ -
Reconciliation of GAAP and budgetary basis:				
Less: Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			-	
Capital improvement projects			-	
Add: Current year encumbrances recognized on the budgetary basis				
Operations and operating projects			-	
Capital improvement projects			-	
Fund Balances, beginning of year			-	
Fund Balances, end of year			-	

West Valley Watershed				Guadalupe Watershed			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
$ 2,919	$ 2,919	$ 2,909	(10)	$ 6,175	$ 6,175	$ 6,167	$ (8)
2,919	2,919	2,909	(10)	6,175	6,175	6,167	(8)
1,355	1,355	1,338	17	3,021	3,021	2,978	43
1,035	1,035	916	119	2,005	2,005	1,712	293
2,390	2,390	2,254	136	5,026	5,026	4,690	336
2,390	2,390	2,254	136	5,026	5,026	4,690	336
529	529	655	126	1,149	1,149	1,477	328
(529)	(529)	(655)	(126)	(1,149)	(1,149)	(1,477)	(328)
(529)	(529)	(655)	(126)	(1,149)	(1,149)	(1,477)	(328)
$ -	$ -	$ -	$ -	$ -	$ -	-	$ -
		-				-	
		-				-	
		-				-	
		-				-	
		-				-	
		-				-	

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued)
Selected Watershed Activities Contained
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Coyote Watershed			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Benefit Assessments	$ 4,622	$ 4,622	$ 4,652	$ 30
Total revenues	4,622	4,622	4,652	30
Expenditures:				
Operating budget:				
Debt service:				
Principal repayment	1,929	1,929	1,909	20
Interest and fiscal charges	1,896	1,896	1,770	126
Total operating budget	3,825	3,825	3,679	146
Total expenditures	3,825	3,825	3,679	146
Excess (deficiency) of revenues over (under) expenditures	797	797	973	176
Other financing sources (uses):				
Transfers out	(797)	(797)	(973)	(176)
Total other financing sources (uses)	(797)	(797)	(973)	(176)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	$ -	$ -	-	$ -
Reconciliation of GAAP and budgetary basis:				
Less: Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			-	
Capital improvement projects			-	
Add: Current year encumbrances recognized on the budgetary basis				
Operations and operating projects			-	
Capital improvement projects			-	
Fund Balances, beginning of year			-	
Fund Balances, end of year			-	

Uvas / Llagas Watershed			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
$ 751	$ 752	$ 752	$ -
751	752	752	-
435	435	457	(22)
175	175	173	2
610	610	630	(20)
610	610	630	(20)
141	142	122	(20)
(141)	(141)	(122)	19
(141)	(141)	(122)	19
$ -	$ 1	-	$ (1)
		-	
		-	
		-	
		-	
		-	


Santa Clara Valley
Water District

Water Enterprise Fund

Schedule of Revenues, Expenses and Changes in Fund Net Assets
Budget and Actual

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenses and
Changes in Net Assets - Budget and Actual
Water Enterprise Fund
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Water Enterprise Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Property taxes	$ 22,675	$ 4,675	$ 4,615	$ (60)
Intergovernmental services	1,170	1,170	1,458	288
Ground water production charges	62,930	62,930	50,384	(12,546)
Treated water charges	67,980	67,980	70,135	2,155
Surface and recycled water revenue	2,374	2,374	828	(1,546)
Investment income	2,748	2,748	1,779	(969)
Capital reimbursements	7,339	7,339	10,443	3,104
Other	2,331	2,331	339	(1,992)
Total revenues	169,547	151,547	139,981	(11,566)
Expenditures:				
Current:				
Operations and operating projects	127,125	109,942	102,191	7,751
Debt Service:				
Principal repayment	5,525	5,525	5,525	-
Interest and fiscal charges	10,946	10,863	8,422	2,441
Capital outlay:				
Capital improvement projects	53,255	94,632	82,384	12,248
Total expenditures	196,851	220,962	198,522	22,440
Excess (deficiency) of revenues over (under) expenditures	(27,304)	(69,415)	(58,541)	10,874
Other financing (uses):				
Revenue Bonds Proceeds	30,200	28,454	-	(28,454)
Transfers in	348	3,000	3,000	-
Transfers out	-	(2,238)	(628)	1,610
Excess (deficiency) of revenues and other financing sources over (under) expenditures	$ 3,244	$ (40,199)	(56,169)	$ (15,970)
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(20,688)	
Capitalized expenditures			49,792	
Debt principal and GAAP basis accruals for interest payable			5,157	
GAAP basis expenses and other liabilities			(2,560)	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(8,277)	
Capital improvement projects			(13,871)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			5,116	
Capital improvement projects			44,449	
Net assets, beginning of year			641,664	
Transfer of reserve			(24,304)	
Net assets, end of year			$ 620,309	

State Water Fund				Total			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
$ -	$ 18,000	$ 18,566	$ 566	$ 22,675	$ 22,675	$ 23,181	$ 506
-	-	-	-	1,170	1,170	1,458	288
-	-	-	-	62,930	62,930	50,384	(12,546)
-	-	-	-	67,980	67,980	70,135	2,155
-	-	-	-	2,374	2,374	828	(1,546)
-	-	1,236	1,236	2,748	2,748	3,015	267
-	-	-	-	7,339	7,339	10,443	3,104
-	-	-	-	2,331	2,331	339	(1,992)
-	18,000	19,802	1,802	169,547	169,547	159,783	(9,764)
-	17,641	17,641	$ -	127,125	127,583	119,832	7,751
				-	-	-	-
-	-	-	-	5,525	5,525	5,525	-
-	-	-	-	10,946	10,863	8,422	2,441
			-	-	-	-	-
-	-	-	-	53,255	94,632	82,384	12,248
-	17,641	17,641	-	196,851	238,603	216,163	22,440
-	359	2,161	1,802	(27,304)	(69,056)	(56,380)	12,676
-	-	-	-	30,200	28,454	-	(28,454)
-	2,049	439	(1,610)	348	5,049	3,439	(1,610)
-	-	-	-	-	(2,238)	(628)	1,610
$ -	$ 2,408	$ 2,600	$ 192	$ 3,244	$ (37,791)	$ (53,569)	$ (15,778)
		(1,249)				(21,937)	
		2,166				51,958	
		-				5,157	
		-				(2,560)	
		-				(8,277)	
		-				(13,871)	
		-				5,116	
		-				44,449	
		-				641,664	
		24,304				-	
		$ 27,821				$ 648,130	

Internal Service Funds

The Internal Service Funds are similar to Enterprise Funds except that services are rendered to other District units rather than to the District's customers. This fund type consists of the Equipment Fund and the Risk Management Fund.

Equipment Fund - to account for the maintenance and operation of the District's vehicle fleet, heavy construction, and information system equipment. Financing is provided through rental charges to operations based upon usage.

Risk Management Fund - to account for the monies set aside to pay for all claims, judgments, and premium costs. Financing is provided through premiums charged to District operations.

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Net Assets
Internal Service Funds
June 30, 2011
(Dollars in Thousands)

	Equipment	Risk Management	Total
ASSETS			
Current assets:			
Cash and investments (Note 3)	$ 2,206	$ 13,533	$ 15,739
Accounts receivable	51	5	56
Prepaid assets	-	269	269
Inventory	77	-	77
Total current assets	2,334	13,807	16,141
Noncurrent assets:			
Capital assets (Note 6)			
Depreciable assets	18,571	18	18,589
Accumulated depreciation	(12,746)	(10)	(12,756)
Total noncurrent assets	5,825	8	5,833
Total assets	8,159	13,815	21,974
LIABILITIES			
Current liabilities:			
Accounts payable	113	40	153
Accrued liabilities	9	1	10
Claims payable (Note 14)	-	476	476
Other Debts (Note 7)	48	28	76
Total current liabilities	170	545	715
Non current liabilities:			
Claims payable (Note 14)	-	6,343	6,343
Other post employment benefits payable (Note 13)	166	118	284
Other Debts (Note 7)	289	173	462
Total non current liabilities	455	6,634	7,089
Total liabilities	625	7,179	7,804
NET ASSETS (Note 10)			
Net assets, invested in capital assets	5,825	8	5,833
Commited	669	6,499	7,168
Assigned	1,040	129	1,169
Total net assets	$ 7,534	$ 6,636	$ 14,170

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Equipment	Risk Management	Total
Operating revenues:			
Vehicle service charges	$ 3,467	$ -	$ 3,467
Computer equipment use charges	3,377	-	3,377
Self-insurance service charges	-	3,989	3,989
Total operating revenues	6,844	3,989	10,833
Operating expenses:			
Administration and general	-	2,618	2,618
Equipment maintenance	5,327	-	5,327
Depreciation and amortization	1,160	-	1,160
Total operating expenses	6,487	2,618	9,105
Operating (loss)	357	1,371	1,728
Nonoperating revenues:			
Investment income (Note 5)	21	137	158
Other	100	-	100
Total nonoperating revenues	121	137	258
Income before transfers:	478	1,508	1,986
Transfers out (Note 16)	-	-	-
Change in net assets	478	1,508	1,986
Net assets, beginning of year	7,056	5,128	12,184
Net assets, end of year	$ 7,534	$ 6,636	$ 14,170

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Equipment	Risk Management	Total
Cash flows from operating activities:			
Receipts from customers and users	$ 6,793	$ 3,984	$ 10,777
Payments to suppliers	(3,164)	(2,048)	(5,212)
Payments to employees	(2,206)	(1,356)	(3,562)
Other receipts	100	-	100
Net cash provided (used) by operating activities	1,523	580	2,103
Cash flows from noncapital financing activities:			
Transfers out to other funds	-	-	-
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(1,753)	1	(1,752)
Cash flows from investing activities:			
Interest received on cash and investments	21	137	158
Net increase in cash and cash equivalents	(209)	718	509
Cash and cash equivalents, beginning of year	2,415	12,815	15,230
Cash and cash equivalents, end of year	$ 2,206	$ 13,533	$ 15,739
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$ 357	$ 1,371	$ 1,728
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,160	-	1,160
Other receipts	100	-	100
Change in operating assets and liabilities:			
Increase (decrease) in accounts receivable	(51)	(5)	(56)
Decrease in prepaid assets	-	74	74
Decrease in inventory	(34)	-	(34)
Decrease in accounts payable	(76)	(118)	(194)
Decrease in accrued liabilities	-	1	1
Increase in claims payable	-	(787)	(787)
Increase in other post employment benefits and compensated absences	67	44	111
Net cash provided by operating activities	$ 1,523	$ 580	$ 2,103

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenses and
Changes in Fund Net Assets - Budget and Actual
Internal Service Funds
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Equipment			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Investment income	$ 44	$ 44	$ 21	$ (23)
Vehicle service charges	3,468	3,468	3,467	(1)
Computer equipment use charges	3,380	3,380	3,377	(3)
Gain on sale of fixed assets	-	-	-	-
Self-insurance service charges	-	-	-	-
Other	27	27	100	73
Total revenues	6,919	6,919	6,965	46
Expenditures:				
Current:				
Operations and operating projects	5,217	5,217	4,947	270
Capital equipment acquisition	2,284	2,284	2,006	278
Total expenditures	7,501	7,501	6,953	548
Other financing sources:				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	$ (582)	$ (582)	12	$ 594
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(1,160)	
Capitalized expenditures			1,769	
Net change in prepaid assets recognized on the GAAP basis			-	
GAAP basis expenses and other liabilities			(65)	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(19)	
Capital improvement projects			(1,060)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			33	
Capital improvement projects			968	
Net assets, beginning of year			7,056	
Net assets, end of year			$ 7,534	

Risk Management				Total			
Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
$ 258	$ 258	$ 137	$ (121)	$ 302	$ 302	$ 158	$ (144)
-	-	-	-	3,468	3,468	3,467	(1)
-	-	-	-	3,380	3,380	3,377	(3)
-	-	-	-	-	-	-	-
4,207	4,207	3,989	(218)	4,207	4,207	3,989	(218)
-	-	-	-	27	27	100	73
4,465	4,465	4,126	(339)	11,384	11,384	11,091	(293)
4,223	4,223	2,525	1,698	9,440	9,440	7,472	1,968
-	-	-	-	2,284	2,284	2,006	278
4,223	4,223	2,525	1,698	11,724	11,724	9,478	2,246
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
$ 242	$ 242	1,601	$ 1,359	$ (340)	$ (340)	1,613	$ 1,953
		-				(1,160)	
		-				1,769	
		(74)				(74)	
		(43)				(108)	
		(56)				(75)	
		-				(1,060)	
						-	
		80				113	
		-				968	
		5,128				12,184	
		$ 6,636				$ 14,170	

Agency Funds

Agency funds are used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds.

Deposit Fund - The fund is used to account for the collection and payment of expenditures for funds held in trust for specific restricted purposes.

SANTA CLARA VALLEY WATER DISTRICT
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Deposit Fund				
Assets:				
Cash and investments (Note 3)	$ 165	$ 46	$ 49	$ 162
Total assets	165	46	49	162
Liabilities:				
Accounts payable	-	12	12	-
Deposits payable	165	47	50	162
Total liabilities	$ 165	$ 59	$ 62	$ 162

Capital Assets Used in the Operation of Governmental Funds

Land, improvements to land, buildings, and equipment that are used in operations and that have initial useful lives extending beyond a single reporting period.

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Schedule By Source[1]
June 30, 2011
(Dollars in Thousands)

Governmental activities capital assets:	
Land	$ 152,122
Buildings	37,505
Structures and improvements	586,520
Equipment	18,328
Construction in process	340,222
Intangibles - Easements	2,546
Total governmental funds capital assets	$ 1,137,243
Investments in governmental funds capital assets by source:	
General fund	$ 95,783
Special revenue funds:	
Watershed & Stream Stewardship	923,392
Clean Safe Creeks	118,068
Total governmental funds capital assets	$ 1,137,243

[1] This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

SANTA CLARA VALLEY WATER DISTRICT

Capital Assets Used in the Operation of Governmental Funds

Schedule By Function and Activity[1]

June 30, 2011

(Dollars in Thousands)

Function and Activity	Land	Buildings	Structures and Improvements	Equipment	Construction in Progress	Intangibles Easements	Total
CEO Support Operations							
Chief Executive Office	$ -	$ -	$ -	$ 408	$ -	$ -	$ 408
Public Affairs	-	-	-	17	-	-	17
Watershed Operations							
Chief Operating Office	-	-	-	2,859	-	-	2,859
Watershed Management Division							
Watershed Business Management	-	-	-	94	-	-	94
Watershed Planning	-	-	-	20	-	-	20
Lower Peninsula/West Valley Mgnt.	-	-	-	66	-	-	66
Guadalupe Watershed Mgmt.	-	-	-	153	-	-	153
Coyote & Uvas/Llagas Mgmt.	-	-	-	28	-	-	28
Capital Program Services Division							
Capital Program Services Departments	-	-	-	270	-	-	270
Water Utility Enterprise Operations							
Chief Operating Office	-	-	-	3	-	-	3
Water Utility Enterprise	-	-	-	70	-	-	70
Administration							
Chief Administrative Office	-	-	-	219	-	-	219
Clerk Of The Board	-	-	-	5	-	-	5
Financial Services Division							
Office of Administrative Services	-	-	-	52	-	-	52
Business And Finance Program	-	-	-	1,598	-	-	1,598
Information Management Division							
Information Management Division	-	-	-	74	-	-	74
Information Mgmt. Support Departments	-	-	-	2,352	-	-	2,352
General Services Division							
Technical Services Division	-	-	-	12	-	-	12
Technical Services Support Division	-	-	-	1,091	-	-	1,091
Human Resources Program							
Human Resources Program	-	-	-	61	-	-	61
Other:							
District-wide property	152,122	37,505	586,520	8,876	340,222	2,546	1,127,791
Total capital assets	$ 152,122	$ 37,505	$ 586,520	$ 18,328	$ 340,222	$ 2,546	$ 1,137,243

[1] This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity[1]
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Function and Activity	Governmental Funds Capital Assets July 1, 2011	Additions	Deductions	Governmental Funds Capital Assets June 30, 2012
100	**CEO Support Operations**				
102	Chief Executive Office	$ 408	$ -	$ -	$ 408
130	Public Affairs	17	-	-	17
200	**Watershed Operations**				
202	Chief Operating Office	2,859	-	-	2,859
210	**Watershed Management Division**				
215	Watershed Business Management	94	-	-	94
230	Watershed Planning	20	-	-	20
250	Lower Peninsula/West Valley Mgnt.	66	-	-	66
270	Guadalupe Watershed Mgmt.	153	-	-	153
290	Coyote & Uvas/Llagas Mgmt.	28	-	-	28
310	**Capital Program Services Division**				
340	Capital Program Services Departments	254	16	-	270
410	**Water Utility Enterprise Operations**				
410	Chief Operating Office	3	-	-	3
420	Water Utility Enterprise	70	-	-	70
600	**Administration**				
602	Chief Administrative Office	219	-	-	219
604	Clerk Of The Board	5	-	-	5
670	**Financial Services Division**				
610	Office of Administrative Services	52	-	-	52
670	Business And Finance Program	1,673	5	(80)	1,598
710	**Information Management Division**				
715	Information Management Division	74	-	-	74
720	Information Mgmt. Support Departments	2,278	74	-	2,352
810	**General Services Division**				
815	Technical Services Division	12	-	-	12
820	Technical Services Support Division	1,091	-	-	1,091
910	**Human Resources Program**				
660	Human Resources Program	61	-	-	61
	Other:				
	District-wide property	1,080,098	47,693	-	1,127,791
		$ 1,089,535	$ 47,788	$ (80)	$ 1,137,243

[1] This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.


Santa Clara Valley
Water District

Statistical Section

Comprehensive Annual Financial Report









To be valued by the community as a fiscally responsible water resources agency

Santa Clara Valley Water District

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SANTA CLARA VALLEY WATER DISTRICT

Statistical Section

This part of the District's comprehensive annual financial statement report presents detailed information as a context for understanding what the information in the financial statement, note disclosures, and required supplementary information says about the District's overall financial health.

Contents **Page**

Financial Trends 122
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity 130
These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.

Debt Capacity 137
These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.

Demographic and Economic Information 143
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

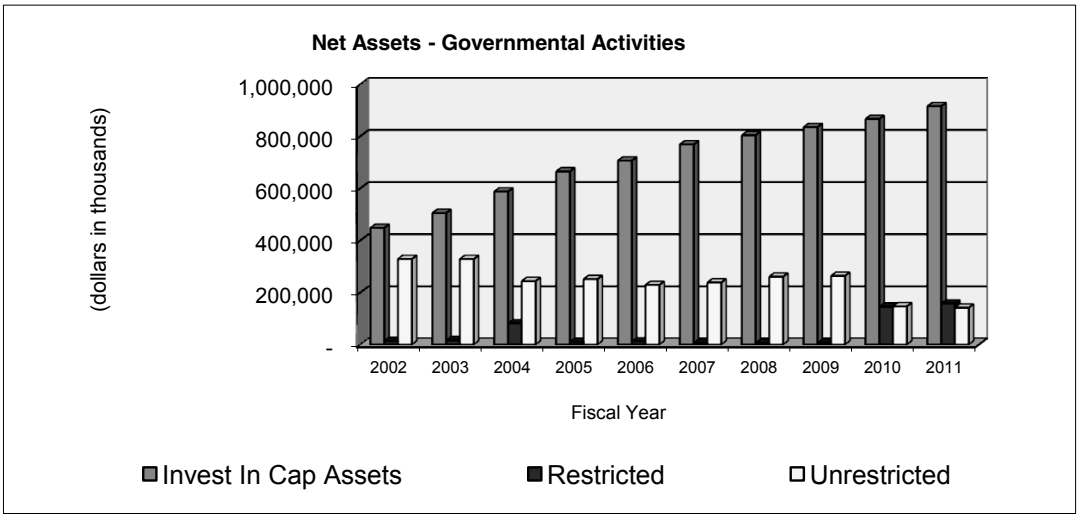
Operating Information 145
These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

The District implemented GASB Statement No. 34 in fiscal year 2000/01; schedules presenting government-wide information include information beginning in that year.

The District implemented GASB Statement No. 44 in fiscal year 2005/06; newly required schedules presenting information in the Statistical Section beginning in that year.

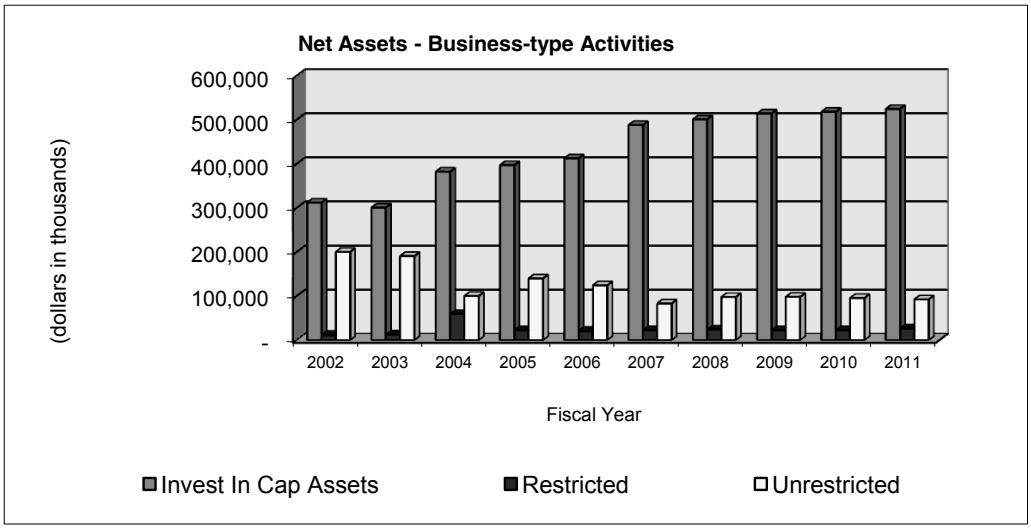
Santa Clara Valley Water District
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(dollars in thousands)

	2002	2003	2004	2005
Governmental activities				
Investment in capital assets, net of related debt	$ 448,045	$ 505,218	$ 587,667	$ 664,735
Restricted	14,168	16,289	81,137	10,661
Unrestricted	328,714	328,336	243,841	251,220
Total governmental activities net assets	$ 790,927	$ 849,843	$ 912,645	$ 926,616
Business-type activities				
Investment in capital assets, net of related debt	$ 312,023	$ 300,872	$ 382,192	$ 397,271
Restricted	11,925	12,442	59,138	22,939
Unrestricted	200,314	190,843	100,240	140,045
Total business-type activities net assets	$ 524,262	$ 504,157	$ 541,570	$ 560,255
Primary government				
Investment in capital assets, net of related debt	$ 760,068	$ 806,090	$ 969,859	$ 1,062,006
Restricted	26,093	28,731	140,275	33,600
Unrestricted	529,028	519,179	344,081	391,265
Total primary government net assets	$ 1,315,189	$ 1,354,000	$ 1,454,215	$ 1,486,871



Source: Santa Clara Valley Water District General Accounting Unit

2006	2007	2008	2009	Restated 2010	2011
$ 706,201	$ 768,503	$ 803,594	$ 834,814	$ 866,291	$ 915,118
11,447	6,519	5,482	5,502	145,370	157,221
228,844	238,292	260,865	264,074	146,800	141,640
$ 946,492	$ 1,013,314	$ 1,069,941	$ 1,104,390	$ 1,158,461	$ 1,213,979
$ 412,458	$ 487,993	$ 500,821	$ 514,102	$ 518,237	$ 524,557
21,256	22,729	24,011	22,824	22,944	26,824
124,540	83,380	98,098	98,288	95,656	92,661
$ 558,254	$ 594,102	$ 622,930	$ 635,214	$ 636,837	$ 644,042
$ 1,118,659	$ 1,256,496	$ 1,304,415	$ 1,348,916	$ 1,384,528	$ 1,439,675
32,703	29,248	29,493	28,326	168,314	184,045
353,384	321,672	358,963	362,362	242,456	234,301
$ 1,504,746	$ 1,607,416	$ 1,692,871	$ 1,739,604	$ 1,795,298	$ 1,858,021



Santa Clara Valley Water District
Change in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)
(dollars in thousands)

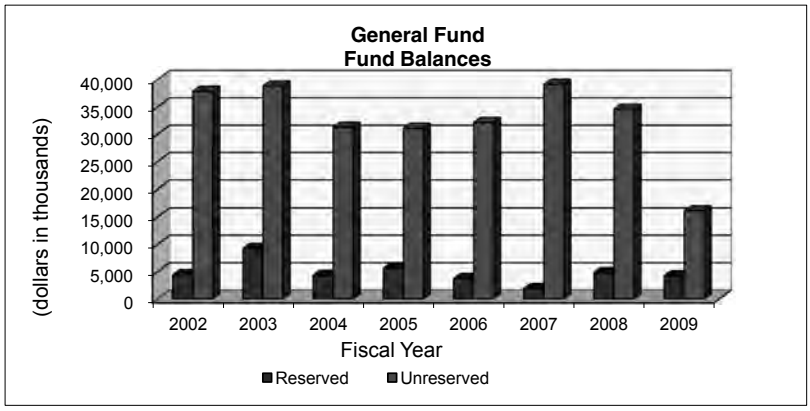
	2002	2003	2004
Expenses			
Governmental activities:			
General government:	$ 3,906	$ 7,393	$ 15,553
Watersheds	30,801	32,734	34,033
Interest on long-term debt	12,516	11,847	8,406
Total governmental activities expenses	47,223	51,974	57,992
Business-type activities:			
Water enterprise	95,643	105,871	104,752
Total primary government expenses	$ 142,866	$ 157,845	$ 162,744
Program Revenues			
Governmental activities:			
Capital grants and contributions	$ 27,833	$ 29,149	$ 40,936
Business-type activities:			
Charges for services	93,669	94,551	108,565
Operating grants and contributions	1,974	2,220	3,412
Capital grants and contributions	102	1,505	6,304
Total business-type activities program revenues	95,745	98,276	118,281
Total primary government program revenues	$ 123,578	$ 127,425	$ 159,217
Net (expense)/revenue			
Governmental activities	$ (19,390)	$ (22,825)	$ (17,056)
Business-type activities	102	(7,595)	13,529
Total primary government net expense	$ (19,288)	$ (30,420)	$ (3,527)
General Revenues and Other Changes in Net Assets			
Governmental activities:			
Property taxes	$ 61,780	$ 64,895	$ 65,954
Unrestricted investment earnings	22,035	14,834	7,501
Miscellaneous	1,366	1,810	3,383
Transfers	3,397	354	3,020
Total governmental activities	88,578	81,893	79,858
Business-type activities:			
Property taxes	13,865	16,239	19,548
Unrestricted investment earnings	12,104	7,281	2,369
Miscellaneous	8,104	1,068	4,987
Transfers	(3,397)	(354)	(3,020)
Total business-type activities	$ 30,676	$ 24,234	$ 23,884
Change in Net Assets			
Governmental activities	$ 69,188	$ 59,068	$ 62,802
Business-type activities	30,778	16,639	37,413
Total primary government	$ 99,966	$ 75,707	$ 100,215

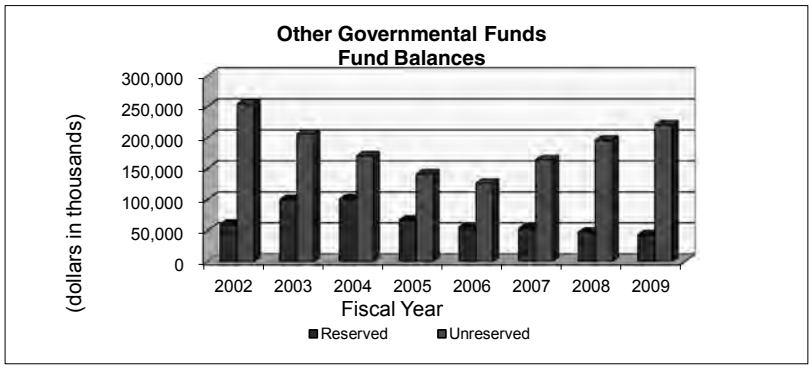
Source: Santa Clara Valley Water District General Accounting Unit

2005	2006	2007	2008	2009	2010	2011
$ 4,846	$ 7,149	$ 9,065	$ 11,617	$ 12,602	$ 9,317	$ 9,954
46,188	48,406	47,604	47,676	45,440	51,841	54,562
11,735	9,344	8,746	8,503	8,269	7,841	7,476
62,769	64,899	65,415	67,796	66,311	68,999	71,992
115,340	137,846	129,374	141,889	168,753	155,145	155,389
$ 178,109	$ 202,745	$ 194,789	$ 209,685	$ 235,064	$ 224,144	$ 227,381
$ 19,135	$ 24,613	$ 24,844	$ 21,869	$ 20,072	$ 23,690	$ 38,578
104,831	108,009	125,234	135,477	136,356	120,264	121,347
2,039	1,269	2,818	2,437	3,923	1,696	1,458
313	1,407	105	708	-	1,602	10,443
107,183	110,685	128,157	138,622	140,279	123,562	133,248
$ 126,318	$ 135,298	$ 153,001	$ 160,491	$ 160,351	$ 147,252	$ 171,826
$ (43,634)	$ (40,286)	$ (40,571)	$ (45,927)	$ (46,239)	$ (45,309)	$ (33,414)
(8,157)	(27,161)	(1,217)	(3,267)	(28,474)	(31,583)	(22,141)
$ (51,791)	$ (67,447)	$ (41,788)	$ (49,194)	$ (74,713)	$ (76,892)	$ (55,555)
$ 46,396	$ 50,923	$ 78,801	$ 83,417	$ 87,425	$ 86,852	$ 86,217
9,188	6,616	12,802	15,736	12,897	7,098	3,337
2,408	2,136	2,392	2,003	3,457	5,161	2,189
(387)	487	2,429	1,398	(6,539)	269	(2,811)
57,605	60,162	96,424	102,554	97,240	99,380	88,932
20,085	19,338	21,491	22,945	21,372	24,241	23,181
3,614	3,086	6,401	9,556	8,245	3,787	1,779
2,756	3,223	3,469	992	4,602	5,447	1,575
387	(487)	(2,429)	(1,398)	6,539	(269)	2,811
$ 26,842	$ 25,160	$ 28,932	$ 32,095	$ 40,758	$ 33,206	$ 29,346
$ 13,971	$ 19,876	$ 55,853	$ 56,627	$ 51,001	$ 54,071	$ 55,518
18,685	(2,001)	27,715	28,828	12,284	1,623	7,205
$ 32,656	$ 17,875	$ 83,568	$ 85,455	$ 63,285	$ 55,694	$ 62,723

Santa Clara Valley Water District
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accural basis of accounting)
(dollars in thousands)

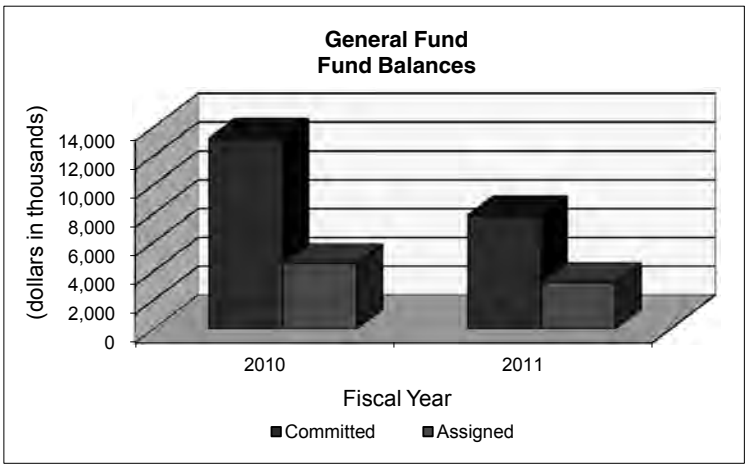
	2002	2003	2004	2005	2006	2007	2008	2009
General Fund								
Reserved	$ 4,435	$ 9,269	$ 4,338	$ 5,645	$ 3,742	$ 1,942	$ 4,848	$ 4,257
Unreserved	37,825	38,788	31,284	31,094	32,131	39,073	34,581	16,117
Total general fund	$ 42,260	$ 48,057	$ 35,622	$ 36,739	$ 35,873	$ 41,015	$ 39,429	$ 20,374
All other governmental funds								
Reserved, reported in								
Special revenue funds	$ 18,909	$ 79,747	$ 63,322	$ 34,053	$ 26,232	$ 18,709	$ 21,091	$ 21,897
Capital project fund	-	-	21,553	18,651	14,609	24,867	17,729	12,618
Debt service fund	41,628	20,558	16,021	14,270	14,964	9,660	8,569	8,623
Unreserved, reported in:								
Special revenue funds	216,169	174,622	170,474	141,295	126,304	164,002	195,721	220,252
Capital project fund	37,985	31,042	-	-	-	-	-	-
Total all other governmental funds	$ 314,691	$ 305,969	$ 271,370	$ 208,269	$ 182,109	$ 217,238	$ 243,110	$ 263,390

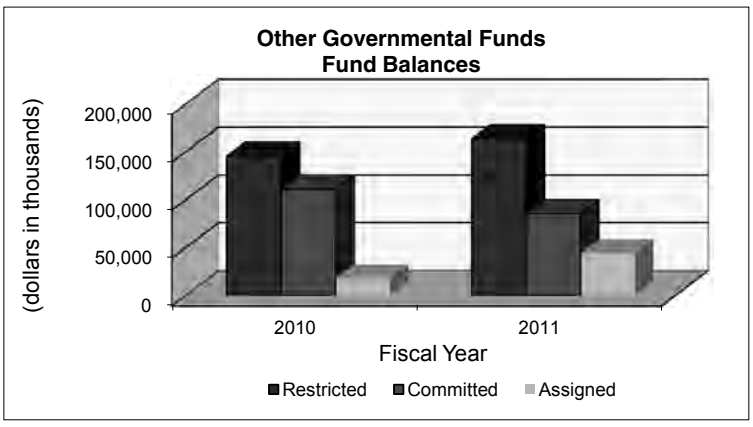




Santa Clara Valley Water District
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accural basis of accounting)
(dollars in thousands)

	Restated 2010	2011
General Fund		
Committed	$ 13,224	$ 7,865
Assigned	4,513	3,237
Total general fund	$ 17,737	$ 11,102
All other governmental funds		
Restricted	$ 145,370	$ 163,372
Committed	111,041	85,408
Assigned	18,022	44,261
Total all other governmental funds	$ 274,433	$ 293,041

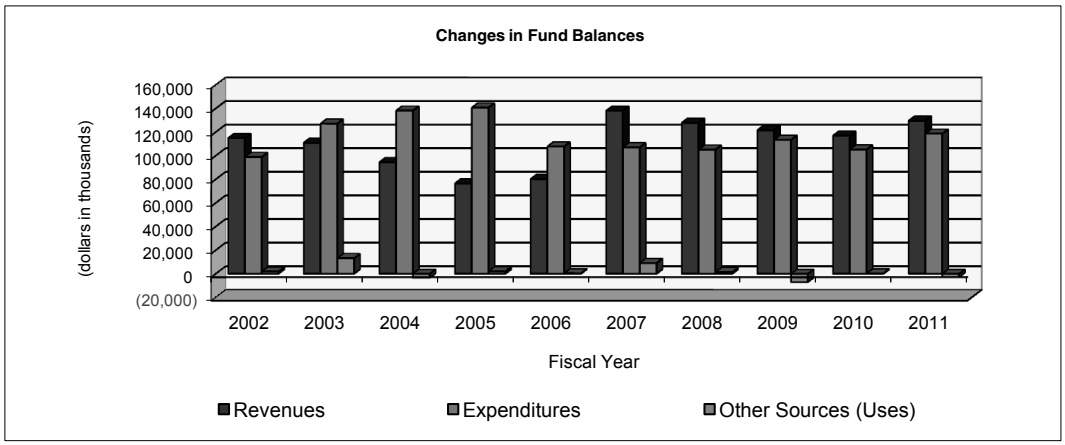




Source: Santa Clara Valley Water District General Accounting Unit

Santa Clara Valley Water District
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accural basis of accounting)
(dollars in thousands)

	2002	2003	2004	2005
Revenues				
Property taxes	$ 61,780	$ 64,895	$ 65,954	$ 46,396
Benefit assessments	19,141	19,161	19,234	19,187
Intergovernmental services	69	-	-	-
Use of money and property:				
Investment income	22,342	14,942	5,666	7,537
Rental	1,045	1,100	1,436	1,463
Reimbursement of capital costs	9,775	9,626	365	1,171
Other	814	1,385	1,925	912
Total Revenues	114,966	111,109	94,580	76,666
Expenditures				
Operations and operating project	32,175	37,529	47,469	42,974
Capital improvement projects	49,937	64,831	78,835	80,011
Debt Service:				
Payment to refunded bond escrow agent	-	-	-	-
Principal repayment	5,160	12,683	2,670	7,125
Interest and fiscal charges	11,657	12,219	9,274	10,716
Total expenditures	98,929	127,262	138,248	140,826
Excess of revenues over (under) expenditures	16,037	(16,153)	(43,668)	(64,160)
Other financing sources (uses)				
Transfers in	52,631	31,536	42,640	33,039
Transfers out	(50,712)	(31,866)	(40,206)	(30,863)
Proceeds from issuance of debt	-	85,715	32,965	-
Payment to refunded bond escrow agent	-	(74,294)	(40,738)	-
Net original issue premium	-	2,137	1,973	-
Total other financing sources (uses)	1,919	13,228	(3,366)	2,176
Net change in fund balances	$ 17,956	$ (2,925)	$ (47,034)	$ (61,984)
Debt service as a percentage of non-capital expenditures	36.5%	44.8%	24.1%	28.8%

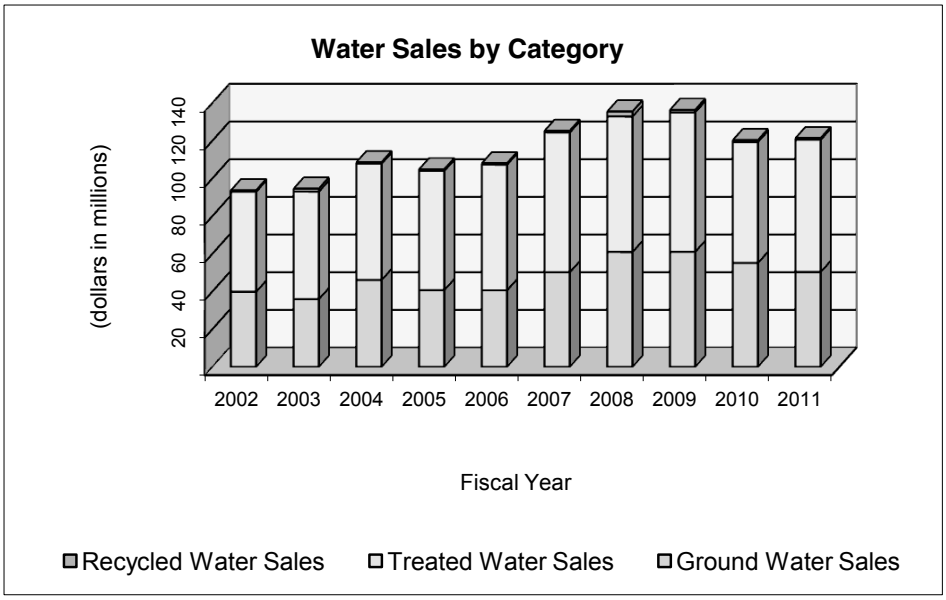


Source: Santa Clara Valley Water District General Accounting Unit

2006	2007	2008	2009	2010	2011
$ 50,923	$ 78,801	$ 83,417	$ 87,425	$ 82,372	$ 86,217
19,212	19,213	17,866	19,255	19,226	19,091
-	-	-	-	-	-
6,360	11,442	14,259	11,475	6,565	2,860
1,533	1,480	1,309	1,300	1,312	1,388
1,765	26,784	10,533	1,311	4,480	19,487
584	482	650	1,012	3,167	701
80,377	138,202	128,034	121,778	117,122	129,744
41,707	46,021	47,216	57,710	46,998	53,778
49,685	43,943	41,384	39,188	41,727	48,478
-	667	-	-	-	-
7,380	7,690	8,600	8,715	9,045	9,280
9,133	8,840	7,946	7,931	7,509	7,158
107,905	107,161	105,146	113,544	105,279	118,694
(27,528)	31,041	22,888	8,234	11,843	11,050
34,607	27,312	31,322	32,604	30,589	20,950
(34,105)	(24,590)	(29,924)	(39,613)	(30,292)	(23,761)
-	78,780	-	-	-	-
-	(76,478)	-	-	-	-
-	4,206	-	-	-	-
502	9,230	1,398	(7,009)	297	(2,811)
$ (27,026)	$ 40,271	$ 24,286	$ 1,225	$ 12,140	$ 8,239
26.2%	27.1%	26.0%	22.2%	25.6%	23.2%

Water Sales by Category
Last Ten Fiscal Years
(dollars in thousands)

Fiscal Year	Ground Water Sales	Treated Water Sales	Surface & Recycled Water Sales	Total Water Sales
2002	39,901	53,055	713	93,669
2003	36,004	57,007	1,540	94,551
2004	46,143	61,688	734	108,565
2005	40,798	63,219	814	104,831
2006	40,675	66,614	720	108,009
2007	50,251	74,165	818	125,234
2008	60,998	71,879	2,600	135,477
2009	61,103	74,012	1,241	136,356
2010	55,189	64,157	918	120,264
2011	50,384	70,135	828	121,347



Source: Santa Clara Valley Water District - Wells & Water Production Unit

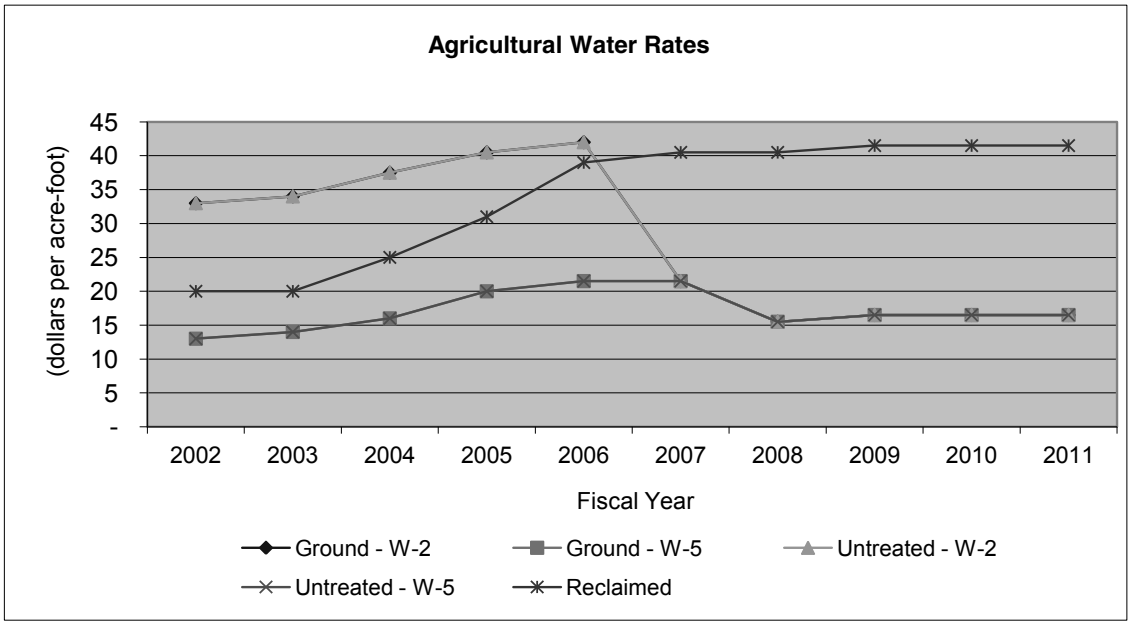
Santa Clara Valley Water District
Principal Water Sales Customers
Current year and Nine years ago
(dollars in thousands)

	Fiscal Year 2011			Fiscal Year 2002		
Water Customer	Water Sales	Rank	Percent of Total Water Sales	Water Sales	Rank	Percent of Total Water Sales
San Jose Water Company	$ 68,040	1	56.07%	$ 53,707	1	57.34%
City of Santa Clara	10,000	2	8.24%	7,105	2	7.59%
City of San Jose	8,583	3	7.07%	6,192	3	6.61%
California Water Service Co.	6,760	4	5.57%	5,560	4	5.94%
City of Sunnyvale	6,533	5	5.38%	5,028	5	5.37%
Great Oaks Water Company	4,242	6	3.50%	4,330	6	4.62%
City of Gilroy	2,276	7	1.88%	1,022	9	1.09%
City of Milpitas	2,184	8	1.80%	1,850	7	1.98%
City of Morgan Hill	2,030	9	1.67%	1,004	10	1.07%
City of Cupertino	1,966	10	1.62%	1,411	8	1.51%
Total	$ 112,614		92.80%	$ 87,209		93.12%
Total Water Sales	$ 121,347			$ 93,669		

Source: Santa Clara Valley Water District - Wells & Water Production Unit

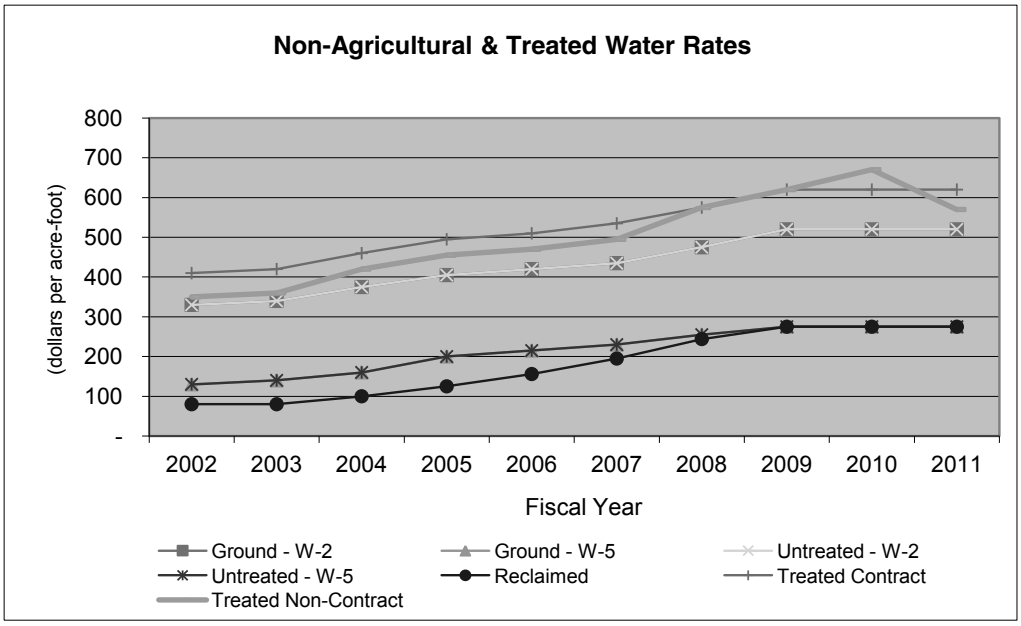
Santa Clara Valley Water District
Water Enterprise Rates Summary
Last Ten Fiscal Years
(rates in dollars per acre-foot)

Fiscal Year	Groundwater Rates				Treated Water Rates	
	Zone W-2		Zone W-5			
	AG	Non-AG	AG	Non-AG	Contract	Non Contract
2002	33.00	330.00	13.00	130.00	410.00	350.00
2003	34.00	340.00	14.00	140.00	420.00	360.00
2004	37.50	375.00	16.00	160.00	460.00	420.00
2005	40.50	405.00	20.00	200.00	495.00	455.00
2006	42.00	420.00	21.50	215.00	510.00	470.00
2007	21.50	435.00	21.50	230.00	535.00	495.00
2008	15.50	475.00	15.50	255.00	575.00	575.00
2009	16.50	520.00	16.50	275.00	620.00	620.00
2010	16.50	520.00	16.50	275.00	620.00	670.00
2011	16.50	520.00	16.50	275.00	620.00	570.00



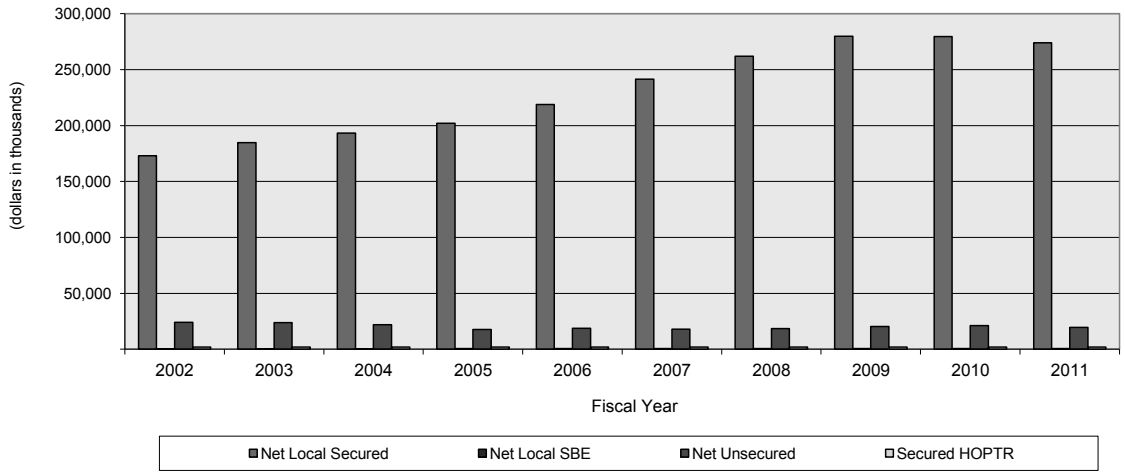
Source: Santa Clara Valley Water District - Wells & Water Production Unit

Untreated Water Rates				Reclaimed Water Rates	
Zone W-2		Zone W-5			
AG	Non-AG	AG	Non-AG	AG	Non-AG
33.00	330.00	13.00	130.00	20.00	80.00
34.00	340.00	14.00	140.00	20.00	80.00
37.50	375.00	16.00	160.00	25.00	100.00
40.50	405.00	20.00	200.00	31.00	125.00
42.00	420.00	21.50	215.00	39.00	156.00
21.50	435.00	21.50	230.00	40.50	195.00
15.50	475.00	15.50	255.00	40.50	244.00
16.50	520.00	16.50	275.00	41.50	275.00
16.50	520.00	16.50	275.00	41.50	275.00
16.50	520.00	16.50	275.00	41.50	275.00



SANTA CLARA VALLEY WATER DISTRICT
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(dollars in thousands)

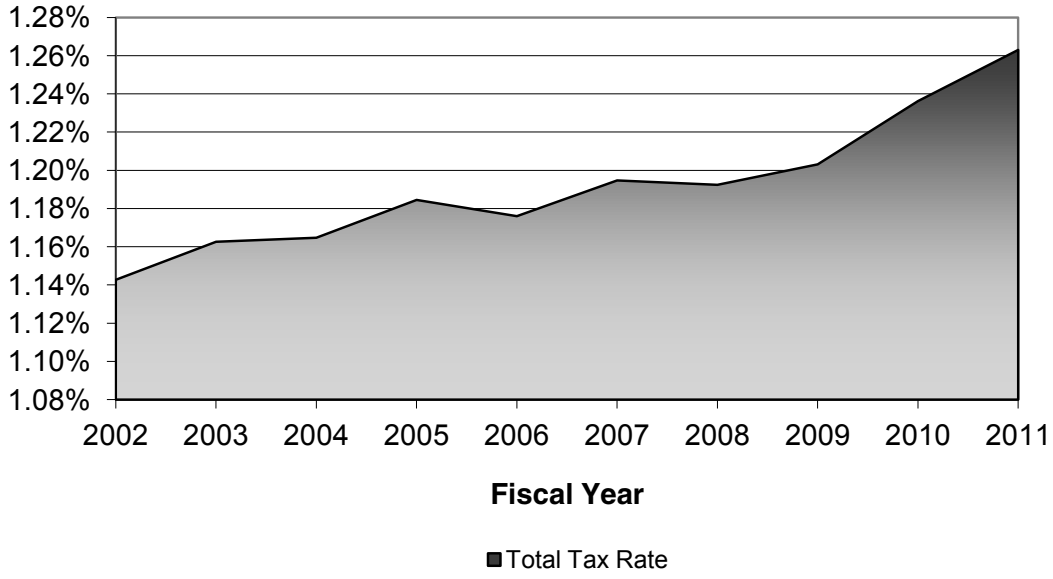
Fiscal Year	Net Local Secured	SBE	Total Secured	Net Unsecured	Total	Exempt Valuation Secured HOPTR	Total	Total Direct Tax Rate
2002	173,034,086	88,467	173,122,553	24,194,609	197,317,162	2,014,905	199,332,067	12,358.59
2003	184,590,934	100,806	184,691,740	23,906,620	208,598,360	1,998,229	210,596,589	15,162.95
2004	193,189,575	465,989	193,655,564	22,076,991	215,732,555	1,967,624	217,700,179	18,939.92
2005	201,958,267	549,864	202,508,131	17,712,736	220,220,867	1,945,661	222,166,528	20,439.32
2006	218,911,222	713,130	219,624,352	18,802,938	238,427,290	1,956,373	240,383,663	18,749.93
2007	241,363,008	587,685	241,950,693	17,998,934	259,949,627	1,963,081	261,912,708	18,857.71
2008	261,930,112	537,968	262,468,080	18,578,048	281,046,128	1,992,833	283,038,961	20,095.77
2009	279,767,066	554,935	280,322,001	20,381,412	300,703,413	2,005,174	302,708,587	18,465.22
2010	279,623,760	602,948	280,226,708	21,112,122	301,338,830	2,007,990	303,346,820	22,447.66
2011	274,020,130	595,208	274,615,338	19,652,921	294,268,259	2,007,881	296,276,140	21,331.88



Source: *County of Santa Clara Property Tax Apportionment Division*

Santa Clara Valley Water District
Property Tax Rates-Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	Basic County Wide Levy	County	Cities	Santa Clara Valley Water District	Schools and Other Districts	Total Tax Rate
2002	1.0000%	0.0364%	0.0095%	0.0062%	0.0906%	1.1427%
2003	1.0000%	0.0388%	0.0193%	0.0072%	0.0973%	1.1626%
2004	1.0000%	0.0388%	0.0129%	0.0087%	0.1043%	1.1647%
2005	1.0000%	0.0388%	0.0247%	0.0092%	0.1118%	1.1845%
2006	1.0000%	0.0388%	0.0258%	0.0078%	0.1036%	1.1760%
2007	1.0000%	0.0388%	0.0310%	0.0072%	0.1177%	1.1947%
2008	1.0000%	0.0388%	0.0331%	0.0071%	0.1134%	1.1924%
2009	1.0000%	0.0388%	0.0323%	0.0061%	0.1259%	1.2031%
2010	1.0000%	0.0388%	0.0326%	0.0074%	0.1574%	1.2362%
2011	1.0000%	0.0388%	0.0350%	0.0072%	0.1820%	1.2630%



Source: *County of Santa Clara, Department of Finance (tax rate area 17-028)*

Santa Clara Valley Water District
Principal Property Tax Payers
Current year and Nine years ago
(Dollars in thousands)

	Fiscal Year 2011			Fiscal Year 2002		
Taxpayer	Taxable Assessed Value[1]	Rank	Percentage of Taxable Assessed Value	Taxable Assessed Value[1]	Rank	Percentage of Taxable Assessed Value
Pacific Gas & Electric Co.	$ 1,652,772	1	0.59%	$ 925,735	6	0.54%
Cisco Technology, Inc.	1,213,574	2	0.43%			
Blackhawk Parent LLC	1,050,470	3	0.37%			
Apple Computer, Inc.	972,198	4	0.35%			
The Irvine Company, LLC	908,310	5	0.32%			
Silicon Valley CA I LLC	814,802	6	0.29%			
Westfield Malls	813,341	7	0.29%			
Intel Corporation	698,963	8	0.25%	1,102,344	2	0.64%
Yahoo Inc.	593,084	9	0.21%			
Pacific Bell Telephone Co. dba AT&T CA	469,557	10	0.17%	1,050,210	3	0.61%
IBM Corporation				1,349,720	1	0.78%
Cisco Systems				996,414	4	0.58%
Sobrato Interests				994,927	5	0.58%
Lockheed Martin Corp.				839,223	7	0.49%
Applied Materials				788,226	8	0.46%
Spieker Properties				714,486	9	0.41%
Agilent				629,286	10	0.36%
Total	$ 9,187,071		3.27%	$ 9,390,571		5.45%
Net Assessed Value of Taxable Property	$ 280,262,945			$ 172,517,128		

[1] The taxable assessed value includes tax assessments on real property and personal property.

Source: Santa Clara County Tax Collector's Office

Santa Clara Valley Water District
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Obligation Bonds	Percentage of Assessed Value of Property	Per Capita
2002	8,645	0.0043%	5
2003	7,255	0.0034%	4
2004	5,835	0.0027%	3
2005	4,565	0.0021%	3
2006	3,205	0.0013%	2
2007	2,630	0.0010%	1
2008	2,025	0.0007%	1
2009	1,390	0.0005%	1
2010	910	0.0003%	-
2011	405	0.0001%	-

Source: *Santa Clara Valley Water District General Accounting Unit*

Santa Clara Valley Water District
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	Governmental Activities		Business-type Activities	
	General Obligation Bonds	Certificates of Participation	General Obligation Bonds	Revenue Bonds
2001	$ 675	$ 204,540	$ 9,980	$ 79,436
2002	455	199,600	8,190	71,425
2003	215	203,670	7,040	62,971
2004	-	195,265	5,835	56,402
2005	-	188,140	4,565	56,370
2006	-	180,760	3,205	55,265
2007	-	178,800	2,630	98,115
2008	-	170,200	2,025	226,980
2009	-	161,485	1,390	224,760
2010	-	152,440	910	220,200
2011	-	143,160	405	215,440

Source: Santa Clara Valley Water District General Accounting Unit

n/a Current information not available

Total Primary Government	Percentage of Personal Income	Per Capita
$ 294,631	0.3514%	174
279,670	0.3606%	163
273,896	0.3526%	158
257,502	0.3116%	149
249,075	0.2858%	142
239,230	0.2481%	135
279,545	0.2685%	155
399,205	n/a	217
387,635	n/a	209
373,550	n/a	199
359,005	n/a	190

SANTA CLARA VALLEY WATER DISTRICT

Computation of Direct and Overlapping Debt

June 30, 2011

2010-11 Assessed Valuation:	$ 296,276,138,774
Redevelopment Incremental Valuation:	30,972,806,096
Adjusted Assessed Valuation:	$ 265,303,332,678

DISTRICT DIRECT DEBT:	% Applicable (1)	District's Share of Debt 6/30/11
Santa Clara Valley Water District Benefit Assessment District	**100%**	**143,160,000**
Santa Clara Valley Water District, Zone W - 1	**100%**	**405,000**
Subtotal District Direct Debt		**143,565,000**
OVERLAPPING GENERAL FUND DEBT:		
Santa Clara County General Fund Obligations	100%	$ 786,980,000
Santa Clara County Pension Obligations	100%	386,024,822
Santa Clara County Office of Education Certificates of Participation	100%	12,580,000
West Valley - Mission Community College District General Fund Obligations	99%	55,358,452
Gilroy Unified School District General Fund Obligations	100%	42,925,000
San Jose Unified School District General Fund Obligations	100%	109,122,992
Santa Clara Unified School District Certificates of Participation	100%	12,980,000
East Side Union High School District Benefit Obligations	100%	31,635,000
Other School District General Fund Obligations	1.168 - 100%	138,342,490
City of Cupertino Certificates of Participation	100%	45,510,000
City of Gilroy Certificates of Participation	100%	47,315,000
City of Mountain View General Fund Obligations	100%	15,685,000
City of San Jose General Fund Obligations	100%	806,034,320
City of Santa Clara General Fund Obligations	100%	44,595,000
City of Sunnyvale General Fund Obligations	100%	25,860,000
Other City General Fund Obligations	100%	64,530,843
Santa Clara County Vector Control District Certificates of Participation	100%	3,800,000
Mid-peninsula Regional Park District General Fund Obligations	69.10%	90,520,474
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		**$ 2,719,799,393**
Less: Cities of San Jose and Mountain View Certificates of Participation		148,980,000
TOTAL NET OVERLAPPING GENERAL FUND DEBT		**$ 2,570,819,393**
OVERLAPPING TAX AND ASSESSMENT DEBT:		
Santa Clara County	100%	$334,900,000
Foothill-DeAnza Community College District	100%	650,224,288
San Jose-Evergreen Community College District	100%	236,993,794
Other Community College Districts	.042 - 98.6%	289,270,496
Gilroy Unified School District and Lease Tax Obligations	100%	174,428,171
Palo Alto Unified School District	100%	229,109,249
San Jose Unified School District	100%	505,867,986
Santa Clara Unified School District	100%	252,260,000
Other Unified School Districts	1.168 - 100%	107,008,661
Campbell Union High School District	100%	167,315,000
East Side Union High School District	100%	553,217,260
Fremont Union High School District	100%	265,975,108
Other High School Districts	94.018 - 100%	102,398,423
Campbell School District	100%	119,646,120
Cupertino Union School District	100%	122,899,991
Evergreen School District and Community Facilities District No. 92-1	100%	119,740,071
Los Altos School District	100%	86,664,000
Los Gatos Union School District	100%	98,340,000
Moreland School District	100%	71,683,662
Sunnyvale School District	100%	117,214,273
Union School District	100%	72,645,524
Other School Districts	4.463 - 100%	477,524,723
City of Gilroy	100%	33,830,000
City of Palo Alto	100%	55,305,000
City of San Jose	100%	480,320,000
City of Saratoga	100%	12,605,000
Saratoga Fire Protection District	100%	4,818,737
El Camino Hospital District	100%	143,805,000
North County Library District Special Tax Obligations	100%	330,000
City Community Facilities Districts	100%	63,750,000
City of San Jose Special Assessment Bonds	100%	24,613,739
Other City 1915 Act Bonds (Estimated)	100%	68,446,493
Subtotal Overlapping Tax and Assessment Debt		$6,043,150,769
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		**$8,613,970,162**
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT		**$8,757,535,162**
GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		$ 8,762,950,162 (2)
NET COMBINED TOTAL DEBT		$ 8,613,970,162

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the District.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010 - 11 Assessed Valuation:	
Direct Debt ($143,565,000)	0.05%
Total Overlapping Tax and Assessment Debt	2.09%
Ratios to Adjusted Assessed Valuation:	
Gross Combined Total Debt	3.30%
Net Combined Total Debt	3.25%

State School Building Aid Repayable as of 06/30/11

Source: *Prepared for the Santa Clara Valley Water District by California Municipal Statistics, Inc.*

SANTA CLARA VALLEY WATER DISTRICT

Revenue Bond Coverage
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year	Adjusted Revenue	Adjusted Operating Expense	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage Factor
				Principal*	Interest*	Total	
2002	110,958	74,440	36,518	8,440	4,320	12,760	2.8619
2003	109,298	80,190	29,108	8,865	3,887	12,752	2.2826
2004	125,274	75,902	49,372	7,025	3,359	10,384	4.7546
2005	115,069	79,909	35,160	1,060	2,992	4,052	8.6772
2006	118,513	99,973	18,540	1,105	2,947	4,052	4.5755
2007	140,439	94,813	45,626	1,720	3,554	5,274	8.6511
2008	151,509	94,363	57,146	2,135	8,703	10,838	5.2727
2009	156,579	105,535	51,044	2,345	9,480	11,825	4.3166
2010	135,810	102,564	33,246	4,814	8,446	13,260	2.5072
2011	133,676	108,093	25,583	5,020	8,019	13,039	1.9620

Source: Santa Clara Valley Water District General Accounting Unit

* Does not include debt service on general obligation debt

In July 1994, the District refunded its outstanding water revenue bonds and restructured its debt convenants under a Master Resolution governing the issuance of all Water Utility System debt obligations. This restructuring of debt convenants included the method of calculating revenue bond coverage.

For fiscal year 2010-11, operating revenue of $122,819 has been increased by $10,857 and operating expense of $134,977 has been decreased by $22,521 as prescribed by the Master Resolution. These adjustments relate primarily to intergovernmental revenues and depreciation and amortization, other post employment benefits, compensated absences and claims and adjustment expenses . The complete calculation can be obtained from the Finance Department at 5750 Almaden Expressway, San Jose, CA 95118.

SANTA CLARA VALLEY WATER DISTRICT

Computation of District Act Debt Margin
June 30, 2011
(Dollars in Thousands)

Authorized short-term debt under authority of District Act Section 25.6	$8,000
Outstanding short-term debt under Section 25.6, June 30, 2011	0
District Act Section 25.6 debt margin on short-term debt	$8,000

Note: California law authorizes the issuance of debt that is not subject to the Section 25.6 District Act limit and the District has issued commercial paper short term debt in a transaction with the Santa Clara Valley Water District Public Facilities Financing Corporation and others.
The Santa Clara Valley Water District's debt issuance practices are governed by the provisions of California law. The Codes do not set a formal debt limit for water districts. However, the short term borrowing authority set in Section 25.6 of the special legislation which formed the Santa Clara Valley Water District (the District Act) provides a limit on short term debt (maturity of less than five years) of $8,000,000 that can be borrowed under authority of that Section. The District is in compliance with its District Act and the other provisions of California law provide additional independent authority for debt.

Santa Clara Valley Water District
Demographic and Economic Statistics
For Santa Clara County
Last Ten Fiscal Years

Fiscal Year	Population [1]	Personal Income (thousands of dollars) [2]	Per Capita Personal Income	Consumer Price Index [3]	School Enrollment [4]	Total Employment [5]	Unemployment Rate [5]
2002	1,719,600	77,548,912	45,097	1.2%	248,777	814,300	8.6%
2003	1,729,900	77,680,349	44,905	1.6%	250,435	776,000	9.2%
2004	1,731,300	82,638,917	47,732	1.4%	251,198	773,400	6.9%
2005	1,759,585	87,154,432	49,531	1.1%	253,065	774,700	5.7%
2006	1,773,258	95,670,811	53,952	3.9%	254,622	775,300	5.0%
2007	1,808,058	105,575,784	58,392	2.6%	255,722	809,500	4.7%
2008	1,837,075	105,978,791	57,689	4.7%	259,116	822,700	6.0%
2009	1,857,621	n/a	n/a	0.2%	261,945	787,700	11.8%
2010	1,880,876	n/a	n/a	1.1%	265,544	879,100	11.3%
2011	1,890,909	n/a	n/a	1.1%	266,267	798,200	9.9%

Source: [1] State of California - Department of Finance
[2] U.S. Department of Commerce - Bureau of Economic Analysis
[3] U.S. Department of Labor - Bureau of Labor Statistics - San Francisco Bay Region
[4] State of California - Department of Education and Santa Clara County Office of Education
[5] State of California - Employment Development Department

n/a Current information not available

Santa Clara Valley Water District
Principal Employers
Current Year and Nine Years ago
(unaudited)

	Fiscal Year 2011			Fiscal Year 2002		
Company or Organization	Employees[2]	Rank	Percentage of Total County Employment	Employees[2]	Rank	Percentage of Total County Employment
Cisco Systems	13,000	1	1.63%	-		
Apple Computer	10,000	2	1.25%	5,500	5	0.67%
Intel Corporation	5,000	3	0.63%	6,000	3	0.74%
Maxim Integrated Products, Inc.	4,706	4	0.59%	4,706	8	0.58%
JDS Uniphase Corp	4,000	5	0.50%	-		
Santa Clara Valley Medical Center	3,500	6	0.44%	-		
Flextronics International	3,490	7	0.44%	4,000	9	0.49%
Yahoo, Inc.	3,000	8	0.38%	-		
Stanford Hospitals & Clinics	2,951	9	0.37%	5,500	6	0.67%
Adobe Systems Inc.	2,700	10	0.34%	-		
Lockheed Martin Space Systems	-			10,000	1	1.23%
Silicon Graphics, Inc.	-			7,000	2	0.86%
Solectron Corp.	-			5,800	4	0.71%
IBM Storage Systems	-			5,000	7	0.61%
Hewlett - Packard Co.	-			4,000	10	0.49%
Total	52,347		6.57%	57,506		5.89%
Total County Employment[1]			798,200			815,300

Source: (1) State Employment Development Department, Labor Market Information Division
(2) Rich's Business Information - Santa Clara County

Santa Clara Valley Water District
Full-time Equivalent District Employees by Function/Program
Fiscal Year 2011

Function/Program	Fiscal Year 2006	2007	2008	2009	2010
Office of the CEO	16	15	10	13	12
Office of the District Counsel	4	5	6	11	11
Community & Government Relations	16	15	10	20	20
County-Wide Watershed Management	134	134	122	122	119
Capital Programs	153	153	152	152	145
Water Utility Operations	23	23	39	43	43
Water Supply	31	31	27	11	11
Water Conservation	10	10	10	10	10
Surface & Groundwater Management	32	32	35	34	34
Water Quality	25	25	24	22	22
Control Systems	11	11	11	11	11
Water Utility Maintenance	31	31	25	23	23
Treated Water Operations	33	33	36	36	36
Raw Water Operations	23	23	26	25	25
Administrative & Business Management	12	12	5	11	11
Clerk of the Board	7	7	8	10	12
Organizational Training & Development	6	6	16	10	6
Business Support Services	17	17	28	18	16
Library & Records	8	8	8	5	5
Budget Office	7	7	9	4	8
Accounting	20	20	19	18	18
Information & Systems Management	46	46	38	42	43
Technical Services	6	6	6	3	3
Wells & Water Production	15	15	13	20	20
Real Estate & Right-of-Way	9	9	9	8	8
Equipment Management	11	11	12	12	12
Warehouse & Inventory Control	8	8	7	7	7
Facilities Maintenance	14	14	15	15	15
Purchasing	10	10	10	9	9
Permits	-	-	14	16	16
Contracts Administration	5	5	5	6	6
Human Resources & Benefits	27	27	21	21	21
Health & Safety	8	8	7	6	6
Total	778	777	783	774	764

Source: SCVWD Human Resources & Benefits Unit

Santa Clara Valley Water District
Operating Indicators by Function/Program
Fiscal Years 2006 - 2011

Function/Program	Fiscal Year 2006	2007	2008	2009	2010	2011
Wells & Groundwater Production						
New Wells	713	1,194	674	846	583	775
Destroyed Wells	707	954	931	620	663	653
Well Permits	1,955	2,692	2,031	2,047	1,564	1,626
Well Inspections	1,420	2,269	1,852	1,685	1,286	1,517
Watershed Management						
Miles of Vegetation Removed/Managed	188	272	202	187	185	175
Cubic Yards of Sediment Removed	39,420	96,329	33,523	7,383	17,409	15,623
Miles of Bank Erosion Protection	1.2	0.8	0.9	1.4	-	2
Laboratory Services Unit						
Water Samples Tested (approx.)	146,000	120,499	84,056	119,190	99,385	132,638
Water Quality Violations	-	-	-	-	-	-
Water Measurement Division						
Meter Readings/Site Visits	6,627	6,612	6,200	7,418	5,934	5,981
Meter Repairs/Preventative Maintenance	200	463	281	342	302	328
Backflow Device Testings	120	203	102	200	190	170
Community Projects Review						
Permits Issued	401	365	242	213	217	229
Land Development Review Requests	2,342	1,708	1,313	1,336	1,080	1,030
Underground Service Alerts	40,356	35,026	38,676	39,079	27,782	28,651
Requests for Flood Zone Information	246	108	109	109	91	90
Environmental Impact Reports Reviewed	144	202	90	130	115	107
Water Resource Protec. Ordinance Violations	23	22	24	136	121	125
Human Resources						
Permanent Positions Hired	63	41	30	19	20	13
Temporary Workers Employed	150	98	100	54	49	121
Employment Applications Processed	1,445	1,973	1,795	952	1,163	1,000
Health & Safety						
Ergonomic Assessments	42	67	73	62	46	44
Confined Space Assessments	200	211	346	193	210	247
Employee Safety Committee Meetings	12	12	9	11	12	10
Projects Managed by Type:						
Capital Projects	128	134	244	179	178	138
Operating Projects	62	64	86	67	56	46
Operations Projects	350	379	448	400	373	354

Source: Various Government Departments

Santa Clara Valley Water District
Capital Asset Statistics by Function/Program
Fiscal Year 2006 - 2011

Function/Program	Fiscal Year 2006	2007	2008	2009	2010	2011
Water Utility Enterprise						
Acres of groundwater recharge ponds	393	393	393	393	393	393
Miles of canals	17	17	17	17	17	17
Miles of pipeline	142	143	143	143	143	143
Miles of tunnels	8	8	8	8	8	8
Number of treatment plants	3	3	3	3	3	3
Number of pumping stations	3	5	5	5	5	5
Number of treated water reservoirs	1	1	1	1	1	1
Water Utility Operations						
Process Control Instrumentation	660	899	998	987	1,071	1,128
Mechanical Drives	47	50	50	50	54	54
Chemical Mixers	85	90	86	86	87	87
Electrical Motors	341	357	376	375	381	407
Power Distribution Equipment	227	247	572	618	640	736
Pumps	436	442	469	469	475	496
Utility Vaults & Structures	988	988	955	958	1,019	1,050
Chemical & Water Storage Tanks	120	162	167	169	170	179
Valves	678	884	945	950	994	1,059
Valve Operators	365	467	490	492	524	577
Generators	13	19	21	21	23	23
Flow Meters	188	225	247	256	258	271
Electric Drives	119	148	148	152	152	160
Blowers & Compressors	166	166	167	167	168	164
Miscellaneous Equipment	296	297	301	315	429	459
Watersheds						
Miles of creeks and rivers managed for flood control	700	700	700	700	700	700
Number of reservoirs	10	10	10	10	10	10
Total District reservoir capacity (acre-feet)	169,415	169,415	169,415	169,415	169,415	169,415
Fleet Equipment						
Class I Passenger Vehicles	227	224	223	204	202	190
Class II Heavy Duty Trucks	70	70	70	72	78	79
Class III Tractors, Const. Equip., Generators, Forklifts	29	27	27	26	25	25
Class IV Misc. Small Tools & Engines	946	998	498	520	597	648

Source: Various Government Departments

SANTA CLARA VALLEY WATER DISTRICT

Flood Control System
Historical Operating Results
Combined Statement of Revenues and Debt Service Coverage
Last Nine Fiscal Years
(Dollars in Thousands)

	2003	2004	2005
Flood Control System Revenues:			
Benefit assessment, gross[1]	$ 19,358	$ 19,428	$ 19,381
Property tax[3]	25,201	25,328	12,036
Investment income[3]	8,321	1,906	3,902
Rental income[3]	1,045	1,359	1,338
Other[3]	146	1,781	550
Total Flood Control System Revenue	$ 54,071	$ 49,802	$ 37,207
Debt Service:			
1994A Certificates of participation, net	$ 10,046	$ 5,596	$ -
2000A Certificates of participation	5,543	5,540	5,544
2003A Certificates of participation	-	4,355	3,824
2004A Certificates of participation	-	-	4,953
2007A Certificates of participation	-	-	-
Total Debt Service	$ 15,589	$ 15,491	$ 14,321
Coverage	3.47	3.22	2.60

[1] The benefit assessment presented on the Statement of Revenues, Expenditures and Changes in Fund Balances are net of collection fees. For the purpose of the Flood Control System Debt Service Coverage, collection fees are excluded. Therefore, the benefit assessments presented above have been increased by:

FY2011 - $193
FY2010 - $194
FY2009 - $195
FY2008 - $181
FY 2007 - $194
FY 2006 - $194
FY 2005 - $194
FY 2004 - $194
FY 2003 - $197

In accordance with voter authorizations, benefit assessments are set at 1.25 of gross debt service allocable to flood control projects starting during fiscal year 2001.

2006	2007	2008	2009[3]	2010	2011
$ 19,406	$ 19,407	$ 18,047	$ 19,450	$ 19,420	$ 19,284
14,416	31,213	34,203	36,058	31,969	33,770
2,292	3,487	4,573	-	-	-
1,395	1,377	1,236	1,157	1,137	1,139
159	310	446	277	273	269
$ 37,668	$ 55,794	$ 58,505	$ 56,942	$ 52,799	$ 54,462
$ -	$ -	$ -	$ -	$ -	$ -
5,539	5,334	-	-	-	-
7,478	7,593	7,330	7,533	7,433	7,495
2,289	2,285	2,287	2,304	2,488	2,395
-	-	4,640	5,759	5,757	5,761
$ 15,306	$ 15,212	$ 14,257	$ 15,596	$ 15,678	$ 15,651
2.46	3.67	4.10	3.65	3.37	3.48

[3] Effective July 1, 2008, special revenue funds - Lower Peninsula Watershed, West Valley Watershed, Guadalupe Watershed, Coyote Watershed and Uvas/Llagas Watershed - were redefined as benefit assessment funds comprised of voter-approved debt repayment phase of the benefit assessment program. The total revenues presented in the Combining Schedule of Revenues, Expenditures and Changes in Fund Balances of Selected Watershed Activities Contained Within the Watershed and Stream Watershed Fund include only benefit assessments. Other revenues were presented in the Statement of Revenues,Expenditures and Changes in Fund Balances of the Watershed and Stream Stewardship Fund.

For the purpose of the Flood Control System Debt Service Coverage, revenues that can be allocated to the special revenue funds were included in the calculation of the coverage. These revenues are Property tax, Rental income and Other. Investment income was not allocated.


Santa Clara Valley
Water District

Santa Clara Valley Water District

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APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Master Resolution, the 1994 Installment Purchase Agreement, as amended, and the Trust Agreement, which are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive and reference should be made to the respective document for a full and complete statement of the provisions thereof.

THE MASTER RESOLUTION

DEFINITIONS

Unless the context otherwise requires, capitalized terms used under the caption "THE MASTER RESOLUTION" will have the meanings defined below.

Accreted Value means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates or other Capital Appreciation Parity Obligations, (i) as of any Valuation Date, the Accreted Value of any Capital Appreciation Bond or any Capital Appreciation Certificate or other Capital Appreciation Parity Obligation set forth for such date in the instrument authorizing such Capital Appreciation Bond or Capital Appreciation Certificate or other Capital Appreciation Parity Obligation, and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

Appreciated Value means, with respect to any Deferred Income Bond or Deferred Income Certificate or other Deferred Income Parity Obligation, prior to the Interest Commencement Date, (i) as of any Valuation Date, the Appreciated Value of any Deferred Income Bond or any Deferred Income Certificate or other Deferred Income Parity Obligation set forth for such date in the instrument authorizing such Deferred Income Bonds or Deferred Income Certificate or other Deferred Income Parity Obligation and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

Assumed Amortization Period means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations pursuant to the provisions of the Master Resolution, the period of time determined, at the election of the District, pursuant to either paragraph (a) twenty-five (25) years; or (b) the period of time, not exceeding twenty-five (25) years, set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the maximum period of time over which obligations having comparable terms and security issued or incurred by water districts of comparable type and credit standing would, if then being offered, be marketable on reasonable and customary terms.

Assumed Interest Rate means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations pursuant to the provisions of the Master Resolution, the rate per annum determined as of the last Business Day of the preceding calendar month and determined, at the election of the District, pursuant to clause (i) or clause (ii): (i) (A) in the event the payment of the principal and interest on the Parity Obligations is from the District's Flood Control Benefit Assessments, then at a rate per annum equal to maximum interest rate allowed under then existing law, or (B) in the event the payment of the principal and interest on the Parity Obligation is from Fees imposed in lieu of Flood Control Benefit Assessments,

then at a rate per annum equal to (1) ninety percent (90%), if interest on the Parity Obligations is exempt from federal income taxation, or (2) one hundred ten percent (110%), if interest on the Parity Obligations is subject to federal income taxation, of the most recently published daily yields to maturity of United States Treasury securities adjusted to a constant maturity of thirty (30) years as published by the Board of Governors of the Federal Reserve System; or (ii) the rate per annum set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the lowest rate of interest (which may be a rate which reflects the exemption of such interest from federal income taxation if such exemption is then available) at which obligations having comparable terms and security, amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period, and issued or incurred by water districts of comparable type and credit standing would, if being offered as of such last Business Day of the calendar month, be marketable on reasonable and customary terms, provided that such rate will not be less than the rate specified in the "Revenue Bond Index" published in The Bond Buyer, or successor index, as in effect on the date of such opinion.

Average Annual Debt Service means the amount determined by dividing the sum of all Debt Service due following the date of such calculation by the number of such Fiscal Year.

Bond or Contract or Other Parity Obligation Reserve Fund means any debt service reserve fund established to secure the payment of Bond Payments, Obligation Payments or Other Parity Obligation Payments.

Bond Payments means the principal and interest payments scheduled to be paid by the District on Bonds.

Bonds means all revenue bonds or notes of the District authorized, issued and delivered by the District under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Flood Control System Revenues on a parity with all other Parity Obligations.

Business Day means any day other than a Saturday, Sunday or legal holiday or a day on which banking institutions are authorized or required by law to be closed in the State of New York, or in the State of California for commercial banking purposes.

Capital Appreciation Bonds means any Bonds described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Bonds.

Capital Appreciation Certificates means any certificates of participation in Obligation Payments described as such when issued and as to which the interest is payable only at the maturity or prior prepayment of such Certificates.

Capital Appreciation Parity Obligations means Parity Obligations described as such when issued and as to which the interest is payable only at the maturity or prior redemption of such Parity Obligations, excluding Capital Appreciation Bonds and Capital Appreciation Certificates.

Certificate of the District means an instrument in writing signed on behalf of the District by the Chairman of the Board of Directors of the District, or by the General Manager of the District, or by any other officer of the District duly authorized by the Board of Directors of the District to sign documents on its behalf with respect to the matters referred to in the Master Resolution.

Certificates means any certificates of participation representing interests in payments to be made by the District pursuant to Leases, Installment Sale Agreements or Contracts of Indebtedness.

Contract Payments means the contract payments scheduled to be paid by the District under and pursuant to Contracts of Indebtedness.

Contracts means all Installment Sale Agreements, Leases, Reimbursement Agreements, and Contracts of Indebtedness.

Contracts of Indebtedness means contracts of indebtedness or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Flood Control System Revenues on a parity with all other Parity Obligations.

Convertible Parity Obligations means Parity Obligations which by their terms permit the District or another designated party on one or more occasions to elect or modify the period for which the rate of interest thereon is fixed.

Credit Enhanced Parity Obligations means Parity Obligations the principal of and interest on which are secured by the proceeds of an irrevocable letter of credit, surety bond, insurance policy or other credit facility or arrangement with a person whom the District is obligated to reimburse for advances made for amounts due on such Credit Enhanced Parity Obligations.

Debt Service means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all Outstanding Bonds, assuming that all Outstanding serial Bonds are retired as scheduled and that all Outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amount of all Outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all Outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, (4) that portion of the Obligation Payments required to be made at the times provided in Contracts that would have accrued during such Fiscal Year or period if such Obligation Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Obligation Payment Date of interest or principal, as the case may be, and (5) that portion of the Other Parity Obligation Payments required to be made at the times provided in the Other Parity Obligations that would have accrued during such Fiscal Year or period if such Other Parity Obligation Payments were deemed to accrue daily in equal amounts from the next preceding Other Parity Obligation Payment Date or, with respect to the principal portion thereof, during the year preceding the first principal payment date, as the case may be; provided, that (1) if any of such Bonds are Capital Appreciation Bonds or Deferred Income Bonds, or if the Obligation Payments due under any such Contracts are evidenced by Capital Appreciation Certificates or Deferred Income Certificates, or if any Other Parity Obligation Payments due under any such Other Parity Obligations constitute Capital Appreciation Parity Obligations or Deferred Income Parity Obligations, then the principal and interest portion of the Accreted Value of all such Capital Appreciation Parity Obligations and the Appreciated Value of all such Deferred Income Parity Obligations becoming due at maturity or on a scheduled redemption date will be included in the calculations of Debt Service made under this definition only from and after the date (the "Calculation Date") which is one year (or such lesser period if so provided in the instrument authorizing such Obligation) prior to the date on which such Accreted Value or Appreciated Value becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value will be deemed to accrue in equal daily installments from the Calculation Date to such date, and (2) that the principal amount of Option Parity Obligations tendered for payment and not remarketed before the stated maturity thereof will be deemed to accrue on the date required to be paid pursuant to such tender in the manner and only to the extent required by the instrument authorizing such Option Parity Obligations; and provided further, that "Debt Service" will not include (1) payments due on general obligation bonds for which ad valorem property taxes have been levied and pledged and other general obligation debts for which ad valorem taxes are then being levied and collected or (2) interest on Bonds or Contracts or Other Parity Obligations which are to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement.

Debt Service Coverage Ratio means for the period in question the ratio of Flood Control System Revenues to the Maximum Annual Debt Service; provided, however, that for purposes of calculating such ratio: (a) principal and interest requirements on Long-Term Parity Obligations, or portions thereof, will not be included in the computation of the Maximum Annual Debt Service (i) for any period to the extent such principal or interest, or portions thereof, is payable from amounts (including investment earnings thereon, if any) deposited in trust with a bank or other financial institution for the payment thereof (including without limitations capitalized interest and accrued interest so deposited into trust, escrow or otherwise set aside) or (ii) for any period occurring after the date on which the Long-Term Parity Obligations are to be redeemed from moneys (including investment earnings thereon, if any) which are (1) irrevocably deposited in trust with a bank or other financial institution for such purpose, (2) invested in Defeasance Obligations pending their application to such purpose and (3) verified by an independent certified public accountant as sufficient for such purpose, provided that notice of such redemption will be given or arrangements will be made therefor, or waiver of such notice will be received by the District; (b) any Long-Term Parity Obligations having a single principal maturity and no sinking fund redemption requirements, or having a principal amount due in any Fiscal Year which exceeds an amount equal to 200% of the maximum principal amount of such Long-Term Parity Obligations that would have become due (whether at maturity or pursuant to sinking fund redemption requirements) in such Fiscal Year if such Parity Obligations Outstanding on the date of calculation had been amortized on a level debt service basis from the date of calculation over the stated term of such Parity Obligations, will be deemed to bear interest at the Assumed Interest Rate determined in accordance with paragraph (ii) of the definition of Assumed Interest Rate and will be deemed to be amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period; (c) the interest on any Variable Rate Parity Obligations will be calculated in accordance with the definition of Assumed Interest Rate; (d) the annual principal and interest payments on Long-Term Parity Obligations arising from any Guaranty will be taken into account as follows: (i) if at any time within the three full Fiscal Years immediately preceding the computation date, the obligee of the guaranteed obligation will have demanded that the District pay principal of or interest on the guaranteed obligation and if, within thirty (30) calendar days of the District's receipt of such demand, the District shall have failed to obtain an Opinion of Counsel to the effect that the District is not legally obligated to honor such demand, then 100% of the annual principal and interest payments scheduled to become due on the guaranteed obligations; or (ii) otherwise, (A) one hundred percent (100%) of the annual principal and interest payments scheduled to become due on the guaranteed obligation so long as the District has fixed, prescribed and caused to be collected Flood Control Benefit Assessments, or (B) twenty percent (20%) of the annual principal and interest payments scheduled to become due on the guaranteed obligation so long as the District has taken such actions to impose Fees in lieu of Flood Control Benefit Assessments; (e) principal and interest on Option Parity Obligations Certificates shall be determined in accordance with the provisions of the Master Resolution; (f) principal and interest on Convertible Parity Obligations shall be determined in accordance with the provisions of the Master Resolution; and (g) principal and interest on Credit Enhanced Parity Obligations shall be determined in accordance with the provisions of the Master Resolution.

Defeasance Securities means and includes, if and to the extent the same are permitted by law, only such securities as are described in clauses (i), (ii) and (iii) below which will not be subject to redemption prior to their maturity other than at the option of the holder thereof, or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, as follows: (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies to the extent unconditionally guaranteed by the United States of America, including obligations issued pursuant to paragraph 21B(d)(3) of the Federal Home Loan Bank Act, as amended by paragraph 511(a) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, or any successor provisions to paragraph 21B of the Federal Home Loan Bank Act, as so amended; (ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if

any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) above which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate; and (iii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i) above, provided that such obligations will be held in trust by a bank or trust company or a national banking association.

Deferred Income Bonds means any Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Bonds.

Deferred Income Certificates means any Certificates as to which accruing interest is not paid prior to the Interest Commencement Date.

Deferred Income Parity Obligations means Parity Obligations as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Parity Obligations, excluding Deferred Income Bonds and Deferred Income Certificates.

Delivery Date means the date on which a Series of Bonds is delivered to the original purchaser thereof.

Experienced Banker or Advisor means a reputable investment banker experienced in underwriting obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution, or a reputable financial advisor experienced in advising issuers in connection with such issuers' issuance of obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution.

Fees means the fees and charges imposed under the Revenue Bond Law of 1941, as amended, or any similar law, which imposes a lien on property.

Finance Manager means the Finance Manager of the District or his or her successor as designated by the Board of Directors of the District.

Fiscal Year means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period selected and designated by the Board of Directors of the District as the Fiscal Year of the District.

Flood Control Benefit Assessments means the benefit assessments of the District established pursuant to Resolution No. 86-54 relating to the Northwest Flood Control Zone, Resolution No. 86-55 relating to the Central Flood Control Zone, Resolution No. 86-56 relating to the East Flood Control Zone, and Resolution No. 86-57 relating to the South Flood Control Zone, all as adopted on July 29, 1986 and as approved by the voters of the respective flood control zones on November 4, 1986, and Resolution No. 90-8 adopted on February 20, 1990, relating to the North Central Flood Control Zone, as approved by the voters of the North Central Flood Control Zone on June 5, 1990, and any other benefit assessments of the District established under the Benefit Assessment Act of 1982, as amended, or any similar law.

Flood Control Service means the flood and storm water control service furnished, made available or provided by the Flood Control System.

Flood Control System means all property rights, contractual rights and facilities of the District relating to flood and storm water control service, including all other properties or structures in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Flood Control System, together with all additions, betterments, extensions or improvements to such facilities, properties or structures or any part thereof acquired and constructed, and designated by the District to be a part or a portion of the Flood Control System.

Flood Control System Revenues means all gross income and revenue received or receivable by the District from the ownership or operation of the Flood Control System, determined in accordance with Generally Accepted Accounting Principles, including Flood Control Benefit Assessments, all Fees imposed in lieu of Flood Control Benefit Assessments, and all proceeds of taxes received by the District, and (i) all income from the deposit or investment of any money in the Flood Control System Revenue Fund, (ii) all income from the deposit or investment of money held in any Bond or Contract or Other Parity Reserve Fund or any fund (including without limitation a construction or acquisition fund) established pursuant to a Trust Agreement to the extent such income is required to be available to pay Bond Payments, Obligation Payments or Other Parity Obligation Payments or is required to be deposited in the Flood Control System Revenue Fund, excluding (i) property taxes levied for the payment of debt service on the District's general obligation bonds, (ii) property taxes levied for the payments of amounts due under the District's State Water Project Contract, (iii) any future property taxes which pursuant to statute are to be applied to a specified purpose, except with respect to such future property taxes to be used for payment of debt service on Parity Obligations.

Generally Accepted Accounting Principles means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Guaranty means a loan commitment or other obligation of the District, which loan commitment or other obligation guarantees in any manner, whether directly or indirectly, any obligation of any other person and which obligation of the District is payable from Flood Control System Revenues on a parity with all other Parity Obligations.

Independent Consultant means any consultant or firm of such consultants appointed by the District, and who, or each of whom (i) is judged by the District to have experience in matters relating to the collection of Flood Control Benefit Assessments and Fees in lieu thereof or otherwise with respect to the financings of flood control systems, (ii) is in fact independent and not under domination of the District, (iii) does not have any substantial interest, direct or indirect, with the District, and (iv) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

Installment Sale Agreements means installment sale agreements or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Flood Control System Revenues on a parity with all other Parity Obligations.

Installment Sale Payments means the installment or other periodic payments scheduled to be paid by the District under and pursuant to Installment Sale Agreements.

Interest Commencement Date means, with respect to any particular Deferred Income Bonds or Deferred Income Certificates or other Deferred Income Parity Obligations, the date specified in the instrument authorizing such Bonds or Certificates or other Deferred Income Parity Obligations (which date must be prior to the maturity date for such Bonds or Certificates or other Deferred Income Parity Obligations) after which interest accruing on such Bonds or Certificates or other Deferred Income Parity Obligations will be payable with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

Interest Payment Date means an Obligation Payment Date on which interest is payable.

Interim Parity Obligations means Parity Obligations incurred or assumed in anticipation of being refinanced or refunded with Long-Term Parity Obligations.

Lease Payments means the rental payments scheduled to be paid by the District under and pursuant to Leases.

Leases means capital leases or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Flood Control System Revenues on a parity with the payment of all other Parity Obligations.

Liquidity Backer means any bank or other financial institution whose long-term indebtedness is rated "AA" or better by Standard & Poor's Ratings Group and whose long-term indebtedness is rated "Aa" or better by Moody's Investors Service, such ratings to be determined without regard to gradations within a rating category.

Long-Term, when used in connection with Parity Obligations, will mean Parity Obligations, exclusive of Interim Parity Obligations, having an original maturity greater than one year or renewable at the option of the District for a period greater than one year from the date of original incurrence or issuance thereof, which will not include the current portion of such Long-Term Parity Obligations as determined in accordance with Generally Accepted Accounting Principles.

Maintenance and Operation Costs means all costs paid or incurred by the District for maintaining and operating the Flood Control System, determined in accordance with Generally Accepted Accounting Principles, including all expenses of management and repair and other expenses necessary to maintain and preserve the Flood Control System in good repair and working order, and including all administrative costs of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District relating to the Flood Control System or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, and fees and expenses of independent certified public accountants; but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amounts paid from other than Flood Control System Revenues.

Maximum Annual Debt Service means the greatest total Debt Service on Long-Term Parity Obligations (computed in accordance with clauses (a) through (g) of the definition of Debt Service Coverage Ratio) due in any Fiscal Year during the period commencing with the Fiscal Year in which such computation is made and terminating (except as otherwise provided in the Master Resolution) with the Fiscal Year in which payments are due under the last Outstanding Bond or the last Outstanding Contract or the last Outstanding Other Parity Obligation, whichever is later.

Obligation means, without duplication, (a) all obligations of the District for borrowed money or which have been incurred or assumed in connection with the acquisition of any portion of the Flood Control System; (b) the liability of the District under any lease, installment sale agreement or other agreement which is properly capitalized on the balance sheet of the District in accordance with Generally Accepted Accounting Principles; and (c) any Guaranty.

Obligation Payment Date means any date on which Bond Payments or Obligation Payments are scheduled to be paid by the District under and pursuant to any Contract or Bonds.

Obligation Payments means Contract Payments, Installment Sale Payments or Lease Payments.

Opinion of Counsel means a written opinion of counsel of national reputation, generally recognized to be well qualified in the field of law relating to municipal bonds, retained by the District.

Option Bonds means Bonds which by their terms may be or are required to be tendered by and at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Certificates means any certificates of participation in Obligation Payments which by their terms may be or are required to be tendered by or at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Parity Obligations means any Parity Obligations which by their terms may be or are required to be tendered by and at the option of the holder or owner thereof for payment or purchase by the District or a third party prior to the stated maturity thereof, including without limitation Option Bonds and Option Certificates.

Other Parity Obligation Payments means the periodic payments scheduled to be paid by the District under and pursuant to Other Parity Obligations.

Other Parity Obligation Payment Date means any date on which Other Parity Obligation Payments are scheduled to be paid by the District under and pursuant to any Other Parity Obligation.

Other Parity Obligations means all Parity Obligations except Bonds, Contracts and Reimbursement Agreements.

Outstanding means, with respect to any Parity Obligations, those Parity Obligations which are not deemed paid in accordance with their terms.

Parity Obligation Payments means the periodic payments scheduled to be made by the District under and pursuant to Parity Obligations.

Parity Obligations means all Obligations, the payments of which are payable from Flood Control System Revenues on a parity with all other Parity Obligations, including without limitation Bonds, Contracts, Guaranties and Reimbursement Agreements.

Principal Payment Date means any Obligation Payment Date on which principal is payable.

Project means a specified list of any additions, betterments, extensions or improvements to the Flood Control System, financed in whole or in part from proceeds of Parity Obligations.

Rating Agency means Moody's Investors Service or Standard & Poor's Ratings Group or such other nationally recognized securities rating agencies as may be so designated in writing to the Trustee by an authorized representative of the District.

Refunding Parity Obligations means any Parity Obligations issued for the purpose of refunding Outstanding Parity Obligations.

Reimbursement Agreement means an agreement between the District and a bank or other financial institution providing for the issuance of a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Obligation Payments or Other Parity Obligation Payments and requiring the District to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Flood Control System Revenues on a parity with all other Parity Obligations.

Reimbursement Payments means amounts payable by the District as compensation or reimbursement for draws or the right to make draws or to have draws made on a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments, Obligation Payments or Other Parity Obligation Payments in accordance with any Reimbursement Agreement.

Reserve Fund Policy means the municipal bond debt service fund policy issued by a municipal bond insurer rated in the two highest rating categories (without regard to "+"'s and "-"'s) by Moody's and S&P's, guaranteeing certain payments into the applicable debt service reserve fund as provided in the applicable Trust Agreement and subject to the limitations set forth in the Master Resolution.

Reserve Requirement means, as of any date of calculation, an amount equal to the least of (i) 10% of the proceeds of the applicable issue of Parity Obligations, (ii) Maximum Annual Debt Service on the applicable issue of Parity Obligations, or (iii) 125% of the Average Annual Debt Service on the applicable Parity Obligations.

Series means one or more Bonds issued at the same time, or sharing some other common term or characteristic, and designated as a separate Series under a Trust Agreement.

Short-Term, when used in connection with Parity Obligations, means Parity Obligations having an original maturity less than or equal to one year and not renewable at the option of the District for a term greater than one year beyond the date of original incurrence or issuance.

Subordinate Obligation Payments means the payments scheduled to be paid by the District under and pursuant to Subordinate Obligations.

Subordinate Obligations means obligations of the District authorized and executed by the District under applicable law, the payments under and pursuant to which are payable from Flood Control System Revenues, subject and subordinate to Parity Obligation Payments and are payable from any fund established pursuant to a trust agreement.

Trust Agreement means any resolution, indenture or trust agreement providing for the issuance of Bonds or Certificates or any Other Parity Obligation.

Trustee means the Trustee and/or any entity appointed by the District as a trustee or fiscal agent under any Trust Agreement.

Valuation Date means, with respect to any Capital Appreciation Bond, Capital Appreciation Certificate, Deferred Income Bond or Deferred Income Certificate, any date on which the value of such Bond or Certificate is to be determined in accordance with the instrument authorizing such Bond or Certificate.

Variable Rate Parity Obligations means any portion of Parity Obligations the rate of interest on which is not established at the time of incurrence as one or more numerical rates applicable throughout the term thereof or for specified periods during the term thereof, with the result that at the time of incurrence the numerical rate of interest which will be in effect during any portion of the term thereof cannot be determined.

ESTABLISHMENT OF FLOOD CONTROL SYSTEM REVENUE FUND

So long as any Parity Obligations or Subordinate Obligations remain outstanding, the District will establish and maintain the Flood Control System Revenue Fund to be held by the Finance Manager. Amounts in such fund will be disbursed, allocated and applied solely to the uses and purposes set forth in the Master Resolution, and will be accounted for separately and apart from all other accounts, funds, money or other resources of the District. The District will only have such beneficial right or interest in such money as is provided in the Master Resolution.

ALLOCATION OF FLOOD CONTROL SYSTEM REVENUES

In order to carry out and effectuate the obligations of the District to make Parity Obligation Payments and Subordinate Obligation Payments, the District has agreed and covenanted that all Flood Control System Revenues received by it will be deposited when and as received in the Flood Control System Revenue Fund.

The District will transfer or make payments from the Flood Control System Revenue Fund the amounts set forth below at the following times and in the following order of priority:

(a) To each Trustee to pay Parity Obligation Payments at the times and in the amounts required by applicable Parity Obligations or the resolutions, trust agreements, indentures or other instruments securing each Parity Obligation;

(b) To each Trustee for deposit in the applicable Bond or Contract or Other Parity Reserve Fund with respect to Parity Obligations an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Bond or Contract or Other Parity Reserve Fund as and to the extent required by the applicable Parity Obligations or the resolutions, trust agreements, indentures or other instruments securing each Parity Obligation;

(c) To each Trustee to pay Subordinate Obligation Payments, the amount at such times as required by applicable Subordinate Obligations or the resolutions, trust agreements, indentures or other instruments securing each Subordinate Obligation;

(d) To each Trustee for deposit in the debt service reserve fund, if any, with respect to such Subordinate Obligations an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such debt service reserve fund as and to the extent required by the applicable Subordinate Obligations or the resolutions, trust agreements, indentures or other instruments securing each Subordinate Obligation;

(e) Such amounts at such times as the District will require to provide for the payment of Maintenance and Operation Costs;

(f) Prior to the last Business Day of each Fiscal Year, after making each of the foregoing payments, the balance of the money in the Flood Control System Revenue Fund may be used for any lawful purpose of the Flood Control System; and

(g) On the last Business Day of each Fiscal Year, the balance of the money then remaining in the Flood Control System Revenue Fund may be used for any lawful purpose of the District.

ADDITIONAL BONDS AND CONTRACTS AND OTHER PARITY OBLIGATIONS

The District may at any time incur or issue Parity Obligations, including without limitation any Bonds the Bond Payments under and pursuant to which, or execute any Contract the Obligation Payments under and pursuant to which, or incur any Other Parity Obligations the Other Parity Obligation Payments under and pursuant to which, as the case may be, are payable from the Flood Control System Revenues on a parity with all Outstanding Parity Obligations; provided:

(a) The District will file a Certificate of the District with each Trustee to the effect that the District is not then in default under any Trust Agreement or with respect to any Parity Obligation.

(b) Such Bond or Contract or Other Parity Obligation will not allow the declaration of Bond Payments, Obligation Payments or Other Parity Obligation Payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement

or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there will be no limitations on the ability of the District to execute Reimbursement Agreements.

(c) Long-Term Parity Obligations may be incurred provided that the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account (i) all Outstanding Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred, and (iii) (A) the Flood Control Benefit Assessments then being collected as of such date of calculation, so long as the District has fixed, prescribed and caused to be collected such Flood Control Benefit Assessments, or (B) the Fees in lieu of Flood Control Benefit Assessments then being imposed , so long as the District has taken such actions to impose such Fees in lieu of Flood Control Benefit Assessments, is not less than 1.25, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with each Trustee along with the financial statements and report of accountants thereon if they are not already on file with such Trustee.

(d) Refunding Parity Obligations may be incurred provided that the reports or opinions set forth in paragraph (c) above will be delivered unless, at the time of issuance of such Refunding Parity Obligations and after giving effect thereto and to the application of the proceeds thereof, Maximum Annual Debt Service, for each subsequent Fiscal Year up to and including the Fiscal Year in which the Long-Term Parity Obligations to be refunded were originally scheduled to be Outstanding, (i) would not be increased as a result of such refunding so long as the District has fixed, prescribed and caused to be collected Flood Control Benefit Assessments for the payment of principal and interest on its Parity Obligations, or (ii) would not be increased by more than 5% so long as the District has taken such actions to impose Fees in lieu of Flood Control Benefit Assessments for the payment of principal and interest on its Parity Obligations; provided, however, that if the Long-Term Parity Obligations to be refunded do not cease to be Outstanding upon, or substantially contemporaneously with the incurrence of such Refunding Parity Obligations, such Refunding Parity Obligations may be incurred pursuant to this paragraph only if the proceeds (including investment earnings, thereon, if any) of the Refunding Parity Obligations are (i) irrevocably deposited in trust with an escrow agent, (2) invested in Defeasance Obligations pending their application to such purpose, and (3) verified by an independent certified public accountant as sufficient for such purpose; provided that notice of such redemption will have been given or arrangements will have been made therefor, or waiver of such notice will have been received by the District.

(e) Short-Term Parity Obligations may be incurred provided that (1) the Outstanding principal amount of Short-Term Parity Obligations incurred pursuant to this paragraph does not exceed twenty percent (20%) of the Flood Control System Revenues, and (2) for a period of twenty (20) consecutive days during each Fiscal Year any Short-Term Parity Obligations will be reduced to an aggregate Outstanding principal amount not exceeding seven percent (7%) of the Flood Control System Revenues for the most recent Fiscal Year, provided that Parity Obligations initially incurred pursuant to this paragraph will be deemed incurred pursuant to paragraph (c) above (and will no longer be deemed incurred pursuant to this paragraph) on the day following that on which a Certificate of the District will be delivered to each Trustee pursuant to paragraph (c) above, which Certificate will include such Parity Obligations.

(f) Interim Parity Obligations may be incurred provided that, at the time such Interim Parity Obligations are incurred or assumed, there will be delivered to each Trustee:

(i) a Certificate of the District and an opinion of an Experienced Banker or Advisor selected by the District stating that the anticipated financing thereof by the issuance of Long-

Term Parity Obligations is reasonably expected to be completed within the next sixty (60) months;

(ii) reports or opinions of the type required by paragraph (c) above demonstrating that all requirements of paragraph (c) above would be met if such Interim Parity Obligations were then being issued as Long-Term Parity Obligations maturing over a term equal to the Assumed Amortization Period with level annual combined payments of principal and interest and having an interest rate equal to the Assumed Interest Rate; and

(iii) either (x) evidence that such Interim Parity Obligations are secured by an irrevocable extension of credit of, or an agreement to purchase such Interim Parity Obligations from the owner thereof by, a person or (y) a written statement of an Experienced Banker or Advisor setting forth the opinion of such Experienced Banker or Advisor (which opinion will be based upon the best estimates and recent experience of such Experienced Banker or Advisor under the then-prevailing market conditions but will not in any event be deemed to constitute an offer to purchase any such Long-Term Parity Obligations or otherwise to create or give rise to any liability or obligation on the part of said Experienced Banker or Advisor with respect thereto) to the effect that long-term parity obligations of similar credit quality maturing over the term and bearing interest at the rate referred to in the foregoing paragraph (ii) would, if then being offered, be marketable on reasonable and customary terms.

Except to the extent expressly required by paragraph (d) above or this paragraph (f), the reports or opinions setting forth the computation of Debt Service Coverage Ratio need not be delivered in connection with the incurrence or assumption of Parity Obligations pursuant to the provisions of paragraphs (c) or (e) above.

(g) In measuring compliance with the applicable tests under the Master Resolution for incurring Option Parity Obligations and generally for purposes of determining the Debt Service Coverage Ratio: (i) Debt Service on Option Bonds or Option Certificates or other Option Parity Obligations will include 1.25 times the annual principal and interest payments scheduled to become due thereon, but in any event, will not include amounts payable upon exercise by the registered owner thereof of the option to tender such Parity Obligations for payment to the extent and for so long as a Liquidity Backer is required to provide the moneys necessary for such payment, (ii) Debt Service on Option Bonds or Option Certificates or other Option Parity Obligations will be deemed to include any periodic fees payable to the Liquidity Backer as a condition of the Liquidity Backer standing ready to provide the moneys necessary for such payment, and (iii) debt service on Option Bonds or Option Certificates or other Option Parity Obligations will not be based upon the terms of any reimbursement obligation to the Liquidity Backer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Liquidity Backer advancing funds and not being reimbursed.

(h) Convertible Parity Obligations may be incurred if at the time of incurrence all applicable provisions of the Master Resolution are complied with for the type of Parity Obligations the Convertible Parity Obligations will be upon its incurrence; provided, however, that the District has no current intention or expectation that the conversion option of such Parity Obligations will be exercised at any particular future time but rather the conversion option has been included to provide flexibility in reacting to future circumstances, and the conversion option has not been included for the purpose of avoiding any limit or restriction in the Master Resolution on the incurrence of Parity Obligations of a type into which such Convertible Parity Obligations may by its terms be converted, and a Certificate of the District and a written statement of an Experienced Banker or Advisor selected by the District so stating is filed with each Trustee. If such a Certificate of the District is not filed with each Trustee, such Convertible Parity Obligations may be incurred only upon compliance with the provisions of the Master Resolution applicable to the form of Parity Obligations such Convertible Parity Obligations will be upon incurrence or into which it may be converted, whichever would have the highest debt service (determined in accordance with the definition of Debt Service Coverage Ratio) for any one-year period.

(i) In determining compliance with the applicable provisions of the Master Resolution for the incurrence of Credit Enhanced Parity Obligations, the District which is also undertaking any contingent repayment obligation to a person who has undertaken to provide moneys necessary for payment to registered owners of such Credit Enhanced Parity Obligations (the "Credit Enhancer") will not also be deemed to be incurring separate Parity Obligations to the Credit Enhancer.

In measuring compliance with the applicable tests under the Master Resolution for incurring Credit Enhanced Parity Obligations, and generally for purposes of determining the Debt Service Coverage Ratio, Debt Service on Credit Enhanced Parity Obligations will be deemed to include any periodic payment payable to the Credit Enhancer as a condition of the Credit Enhancer standing ready to provide moneys necessary for payment to the registered owners of such Credit Enhanced Parity Obligations, and Debt Service on Credit Enhanced Parity Obligations will not be based upon the terms of any reimbursement obligation to the Credit Enhancer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Credit Enhancer advancing funds and not being reimbursed.

Subordinated Obligations may be incurred without meeting any of the tests described under this heading.

DEBT SERVICE RESERVE FUND

In addition to the provisions set forth under the caption above, prior to the issuance and delivery of each issue of Parity Obligations, the District will establish a debt service reserve fund and cause to be deposited therein a portion of the Parity Obligation proceeds in an amount equal to the Reserve Requirement or such other legally required reserve requirement established for such Parity Obligations under the applicable Trust Agreement. The Board finds that the creation of the debt service reserve fund is of benefit to all five flood control benefit zones within the District and further finds and declares that the funding and replenishment of such debt service reserve fund will be made from any available Flood Control Benefit Assessment without regard to and distinction of the source of such Flood Control Benefit Assessment.

At any time and from time to time, the District, at its option, may substitute all or any portion of the Reserve Requirement or such other legally required reserve requirement by providing to the Trustee a Reserve Fund Policy, a letter of credit or other form of guarantee. The Trust Agreement relating to the applicable issue of Parity Obligations will provide, among others, the payment procedure in the event of a deficiency with respect to the payment of principal and interest on the applicable issue of Parity Obligations and the replenishment of such debt service reserve fund.

OTHER UTILITY SYSTEMS

Nothing in the Master Resolution will prohibit the District from operating and maintaining a separate utility or enterprise system as a separate, distinct and self-supporting entity apart from the Flood Control System.

COVENANTS OF THE DISTRICT

Against Liens and Encumbrances. The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, to or for the District in, upon, about or relating to the Flood Control System and will keep the Flood Control System free of any and all liens against any portion of the Flood Control System. In the event any such lien attaches to or is filed against any portion of the Flood Control System, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so. If any such lien will be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment.

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Flood Control System or any part thereof essential to the proper operation of the Flood Control System or to the maintenance of the Flood Control Revenues, and will not enter into any agreement or lease which would impair the operation of the Flood Control System or any part thereof necessary to secure adequate Flood Control System Revenues for the payment of Parity Obligation Payments or Subordinate Obligation Payments, or which would otherwise impair the rights of the holders of Bonds or Certificates or other Parity Obligations with respect to the Flood Control System Revenues or the operation of the Flood Control System; provided, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Flood Control System, or any material or equipment which has become worn out, may be sold if such sale, as evidenced by a Certificate of the District, will not reduce the Flood Control System Revenues below the amount necessary to meet the annual payment requirements on any Obligations then remaining outstanding.

Maintenance and Operation of the Flood Control System; Budgets. The District will maintain and preserve the Flood Control System in good repair and working order at all times and will operate the Flood Control System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable; provided, however, in so paying the Maintenance and Operation Costs, such payment will not cause the District to fix Flood Control Benefit Assessments in excess of the maximum amount allowed under the Benefit Assessment Act of 1982, as amended, for the applicable Fiscal Year.

Not later than the first Business Day of each Fiscal Year, the District will adopt and, if requested, make available to each Trustee, a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs, the estimated payments for Debt Service, the estimated Reimbursement Payments and the estimated debt service payments on all Subordinate Obligations for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget will be made available to each Trustee.

No Superior Liens. The District will not create or allow any lien on or payment from the Flood Control System Revenues or any part thereof prior or superior to the obligation to make the Parity Obligation Payments as provided in the Master Resolution or which might impair the security of any Parity Obligations.

Insurance. The District will procure and maintain such insurance relating to the Flood Control System which it will deem advisable or necessary (based on the annual written report and approval of the District's risk manager or an independent insurance consultant) to protect its interests, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Flood Control System; provided, the District will not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided, further, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with facilities, properties, structures and works similar to the Flood Control System. All policies of insurance required to be maintained in the Master Resolution will provide that each Trustee will be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records and Financial Statements.

(a) The District will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the Flood Control System, which records will be available for inspection by each Trustee at reasonable hours and under reasonable conditions.

(b) The District will prepare and file with each Trustee annually within one hundred and twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal year ending June 30, 1994) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, certified by the independent certified public accountant who examined such financial statements stating that nothing came to his or her attention in connection with

such examination that caused him or her to believe that the District was not in compliance with any of the agreements or covenants contained in the Master Resolution.

(c) The District will prepare annually not more than one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1994) a summary report showing in reasonable detail the results of the operations of the District for such Fiscal Year and containing a general statement of the physical condition of the facilities, properties, structures or works of the District and the insurance therein being maintained in accordance with the Master Resolution. The District will furnish a copy of such summary report to each Trustee.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Flood Control System or any part thereof when the same will become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Flood Control System or any part thereof, but the District will not be required to comply with any regulations or requirements so long as the validity or application thereof will be contested in good faith.

Collection of Flood Control Benefit Assessments and Charges. So long as any Obligations are outstanding, the District will at all times fix, prescribe and collect or cause to be collected the Flood Control Benefit Assessments based on estimated benefit for Flood Control Service in an amount sufficient, together with other Flood Control System Revenues, to meet Debt Service with respect to any Obligations then remaining outstanding; provided, however, the District may forgive such Flood Control Benefit Assessments levied which, in the District's determination, will be more costly to administer the collection of such than the amount to be collected. In lieu of Flood Control Benefit Assessments, the District may, if determined by the District to be necessary to meet Debt Service with respect to any Obligations then remaining outstanding, fix Fees for Flood Control Service to the extent permitted by law; provided, that, the District may, without charge, use the Flood Control Service.

Eminent Domain and Insurance Proceeds. If all or any part of the Flood Control System will be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the Flood Control System, the proceeds thereof will be used to substitute other components for the condemned or destroyed components of the Flood Control System or applied to the cancellation of Parity Obligations.

1994 INSTALLMENT PURCHASE AGREEMENT, AS AMENDED

Definitions

Unless the context otherwise requires, capitalized terms used under the caption "1994 INSTALLMENT PURCHASE AGREEMENT AS AMENDED" will have the meanings defined below. Unless the context otherwise requires, all capitalized terms used below and not defined below will have the meanings ascribed thereto in the Master Resolution and the 1994 Trust Agreement.

Accountant's Report means a report signed by an Independent Certified Public Accountant.

Authorized District Representative means the Chairman of the Board of Directors or Finance Manager of the District or such other officer or employee of the District or other person who has been designated as such representative by resolution of the Board of Directors of the District.

Certificates means the Santa Clara Valley Water District Refunding and Improvement Certificates of Participation Series 1994A, delivered in the aggregate principal amount of $144,620,000 and the Santa Clara Valley Water District Refunding and Improvement Certificates of Participation, Series 2003A, delivered in the aggregate principal amount of $85,715,000, and any certificates of participation delivered to refinance any

Certificates, all evidencing and representing interests in the Installment Payments to be made under the Installment Purchase Agreement.

Certificate Insurance Policy means the municipal bond new issue insurance policy issued by the Certificate Insurer that guarantees payment when due of principal and interest evidenced and represented by the Certificates.

Certificate Insurer means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

Code means the Internal Revenue Code of 1986, as amended, and the regulations of the United States of Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successors to such section of the Code.

Consultant means the consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the District to perform the acts and carry out the duties provided for such consultant in the Installment Purchase Agreement. Such consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm shall be recognized within its profession for work of the character required.

Corporation means the Santa Clara Valley Water District Public Facilities Financing Corporation.

Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the execution, sale and delivery of the Certificates and the execution and delivery of the Installment Purchase Agreement, including administrative fees, filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, insurance premiums, fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, fees for transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

Debt Service means, for any Fiscal Year or other period, the sum of (1) the interest payable during such Fiscal Year or other period on all outstanding Installment Payments, assuming that all outstanding serial Certificates, evidencing and representing interests in such Installment Payments, are retired as scheduled and that all outstanding term Certificates, evidencing and representing interests in such Installment Payments, are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any other Certificates), (2) that portion of the principal amount of all outstanding serial Certificates, evidencing and representing interests in such Installment Payments, maturing on any principal payment date which falls in such Fiscal Year or other period, and (3) that portion of the principal amount of all outstanding term Certificates, evidencing and representing interests in such Installment Payments, required to be prepaid or paid on any prepayment date which falls in such Fiscal Year or other period (together with the prepayment premiums, if any, thereon).

Engineer's Report means a report signed by an Independent Engineer.

Event of Default means an event described under the caption entitled "Events of Default."

Flood Control System Master Resolution means Resolution No. 94-60 adopted on June 23, 1994, providing for the allocation of Flood Control System Revenues.

Independent Certified Public Accountant means any firm of certified public accountants appointed by the District, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Engineer means any registered engineer or firm of registered engineers generally recognized to be well qualified in engineering matters relating to systems, appointed and paid by the District.

Installment Payment Date means ten calendar days prior to each February 1 and August 1 of each year, commencing on ten calendar days prior to August 1, 1994.

Installment Payments means the Installment Payments scheduled to be paid by the District under and pursuant to the Installment Purchase Agreement.

Installment Purchase Agreement means the Installment Purchase Agreement, dated as of June 15, 1994, by and between the District and the Corporation, as originally executed and as it may from time to time be amended or supplemented in accordance with the Installment Purchase Agreement.

Interest Payment Date means each February 1 and August 1, commencing on August 1, 1994.

Law means the Santa Clara Valley Water District Act, Chapter 1405 of Statutes of 1951 of the State of California, as amended.

Net Proceeds means, when used with respect to any insurance, self insurance or condemnation award, the proceeds from such award remaining after payment of all expenses (including attorneys fees) incurred in the collection of such proceeds.

1988 Installment Payment Agreement means the Installment Purchase Agreement, dated as of February 1, 1988, by and between the Corporation and the District.

1988 Project means the additions and improvements to the District made pursuant to the 1988 Installment Payment Agreement as described under the heading "1988 Project" in Exhibit A of the 1988 Installment Payment Agreement.

1990 Installment Purchase Agreement means the Installment Purchase Agreement, dated as of July 1, 1990, by and between the Corporation and the District.

1990 Project means the additions and improvements to the District made pursuant to the 1990 Installment Purchase Agreement as described under the heading "1990 Project" in Exhibit A of the 1990 Installment Purchase Agreement.

Project means, collectively, (i) those certain public facilities that are to be acquired and constructed by the Corporation to be conveyed by the Corporation to the District, as more particularly described in Exhibit A, (ii) the 1988 Project, and (iii) the 1990 Project, all as further described in Exhibit A attached to the Installment Purchase Agreement.

Purchase Price means the amount to be paid by the District to the Corporation for the purchase of the Project under the terms of the Installment Purchase Agreement.

Rebate Fund means the fund by that name established pursuant to the Trust Agreement.

Reserve Requirement will have the meaning given to such term in the Trust Agreement.

Special Counsel means a firm of attorneys which are nationally recognized as experts in the area of municipal finance.

Trust Agreement means that certain Trust Agreement, dated as of June 15, 1994, by and among the District, the Corporation and the Trustee, relating to the execution and delivery of the Certificates.

Trustee means State Street Bank and Trust Company of California, N.A., acting in its capacity as trustee under and pursuant to the Trust Agreement, and its successors and assigns.

Acquisition and/or Construction, Sale and Conveyance of the Project

The Corporation has agreed to acquire and/or construct the Project, as applicable, for and to sell and convey the Project to the District. In order to implement this provision, the Corporation has appointed the District as its agent for the purpose of the acquisition and construction of a portion of the Project, subject to such construction, and the District has agreed to enter into such construction contracts and purchase orders as may be necessary, as agent for the Corporation, to provide for the complete acquisition and construction of such portion of the Project, and the District has further agreed that it will cause the acquisition and construction of such portion of the Project to be diligently prosecuted with all practical dispatch and in an expeditious manner after the deposit of funds with the Trustee in the Acquisition and Construction Fund for such purpose, and that it will use its best efforts to cause the acquisition and construction of such portion of the Project to be completed as soon as possible, unforeseeable delays beyond the reasonable control of the District only excepted; provided, that the District has agreed that it will pay, from any other funds legally available to it, the necessary costs of the acquisition and construction of such portion of the Project in excess of the funds for such purpose available from the proceeds of the Certificates deposited in the Acquisition and Construction Fund.

The District may substitute or add other improvements for the flood control facilities listed as components of the Project in Exhibit A to the Installment Purchase Agreement, but only if the District first files with the Corporation and the Trustee a statement of the District;

(a) identifying the improvements to be substituted and the improvements to be added; and

(b) stating that the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the previously planned and/or the Corporation has additional Certificate proceeds to construct and/or acquire the additional improvements.

Notwithstanding the foregoing, it is expressly understood and agreed that the Corporation will be under no liability of any kind or character whatsoever for the payment of any cost or expenses incurred by the District for the acquisition and construction of such portion of the Project and that all such costs and expenses will be paid by the District, regardless of whether the funds deposited in the Acquisition and Construction Fund are sufficient to cover all such costs and expenses. The Corporation agrees to and sells, transfers and conveys the Project to the District.

The District and the Corporation further represent and warrant that on the Closing Date the 1988 Project and the 1990 Project will have been constructed as agreed to by the Corporation and the District in the 1988 Installment Payment Agreement and the 1990 Installment Purchase Agreement, respectively.

Purchase and Sale of Project

The District has purchased from the Corporation, and the Corporation has sold to the District, for the Purchase Price, the Project in accordance with the provisions of the Installment Purchase Agreement. All right, title and interest in the Project sold to the District by the Corporation will immediately vest in the District on the Closing Date without further action on the part of the District or the Corporation.

Access to Project

The Trustee and the Certificate Insurer will have the right to examine and inspect the Project during reasonable business hours. The Trustee will have no duty to examine or inspect the Project.

Purchase Price

The Purchase Price to be paid by the District under the Installment Purchase Agreement to the Corporation, made from Flood Control System Revenues, is the aggregate amount of Installment Payments scheduled to be paid under the Installment Purchase Agreement, subject to prepayment as provided in the Installment Purchase Agreement.

Installment Payments

The District will, subject to any rights of prepayment provided in the Installment Purchase Agreement, pay to the Corporation, from Flood Control System Revenues, the Purchase Price in Installment Payments to February 1, 2024 in the amounts and on the Installment Payment Dates as set forth in Exhibit B to the Installment Purchase Agreement. Pursuant to the Trust Agreement, the Installment Payments are to be applied to the payment of the principal and interest evidenced and represented by the Certificates and Installment Payments will be made in amounts that are sufficient, but no more than sufficient, to pay the scheduled payments of principal and interest evidenced and represented by the Outstanding Certificates. If and to the extent that, on any Installment Payment Date, there are amounts on deposit in the Payment Fund established under the Trust Agreement, which amounts are not being held for the payment of specific Certificates, said amounts will be credited against the Installment Payment due on such date. If all or a portion of the Certificates are no longer Outstanding as a result of prepayment, early retirement through purchase by the District or the Corporation or defeasance of such Certificates, the schedule of Installment Payments set forth in Exhibit B to the Installment Purchase Agreement will be deemed to have been modified so that the Installment Payments are sufficient, but no more than sufficient, to pay the scheduled payments of principal and interest evidenced and represented by the Outstanding Certificates. Upon any such prepayment, purchase or defeasance, the District will recalculate Installment Payments and will provide the Trustee with a modified schedule of Installment Payments.

Each Installment Payment will be paid to the Trustee, as assignee of the Corporation, on or before the tenth calendar day prior to the applicable Installment Payment Date, in lawful money of the United States of America, in funds which will be immediately available following payment. In lieu of depositing with the Trustee all cash to meet its Installment Payment due and payable on the next succeeding Installment Payment Date, the District may deposit with the Trustee Permitted Investments which will mature on or before the next succeeding Interest Payment Date in an amount which, together with the cash deposited or on deposit in the Payment Fund, will be sufficient to pay the interest and principal due on said Interest Payment Date. In the event the District fails to make any of the payments required to be made by it under the Installment Purchase Agreement, such payment will continue as an obligation of the District until such amount will have been fully paid and, to the extent permitted by law, the District agrees to pay the same with interest accruing thereon at the rate of ten percent (10%) per annum.

The District will, on the second Business Day succeeding each Interest Payment Date, deposit or cause to be deposited, from Flood Control System Revenues, in the Reserve Fund such amounts as are necessary to increase the amount on deposit therein to the Reserve Requirement for the Certificate Year in which such second Business Day succeeding each Interest Payment Date occurs. Furthermore, in the event that the Trustee notifies the District that the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the District will deposit or cause to be deposited in immediately available funds, from Flood Control System Revenues, within 5 Business Days after receiving such notice from the Trustee in the Reserve Fund such amounts as are necessary to increase the amount on deposit therein to the Reserve Requirement.

The obligation of the District to make the Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the District will not discontinue or suspend any Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments will not be

subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Pledge

All Flood Control System Revenues are pledged to the payment of the Installment Payments as provided in the Installment Purchase Agreement, and the Flood Control System Revenues will not be used for any other purpose while any of the Installment Payments remain unpaid; provided, however, that out of the Flood Control System Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Agreement and as provided in the Flood Control System Master Resolution. The pledge will constitute a first lien on the Flood Control System Revenues for the payment of the Installment Payments.

Allocation

In order to carry out and effectuate the pledge contained in the Installment Purchase Agreement, the District has agreed and covenanted in the Flood Control System Master Resolution that all Flood Control System Revenues will be received by the District in trust and will be deposited when and as received in the Flood Control System Revenue Fund. All moneys in the Flood Control System Revenue Fund will be so held in trust and applied and used solely as provided in the Flood Control System Master Resolution. The District will pay from the Flood Control System Revenues to the Trustee, as assignee of the Corporation, the Installment Payments as and when due under the Installment Purchase Agreement.

After the payments contemplated by the next preceding paragraph have been made on each Installment Payment Date, any remaining Flood Control System Revenues then deposited in the Flood Control System Revenue Fund will be used to make up any deficiency in the Reserve Fund under the Trust Agreement.

Compliance with Installment Purchase Agreement

The District will punctually pay the Installment Payments in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and between the parties to the Installment Purchase Agreement that, subject to the provisions regarding partial invalidity of the Installment Purchase Agreement, each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the purchase of and payment for the Project by the District pursuant to, and in accordance with, and as authorized under, the Law.

Reserve Fund

The District will maintain or cause to be maintained a Reserve Fund at the Reserve Requirement. In the event the amount therein falls below the Reserve Requirement, the District will replenish the Reserve Fund up to the Reserve Requirement from the first available Flood Control System Revenues and any other legally available moneys of the District as provided in the Installment Purchase Agreement or as otherwise permitted under the Trust Agreement.

Use of Proceeds of Certificates

The District and the Corporation agree that the proceeds of the Certificates will be used by the District, as agent of the Corporation, to acquire and construct the Project, to pay the Costs of Issuance and to establish the Reserve Fund under the Trust Agreement.

Against Encumbrances

The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the District, in, upon, about or relating to the Project and will keep the Project free of any and all liens against any portion of the Project or the Corporation's interest therein. In the event any such lien attaches to or is filed against any portion of the Project or the Corporation's interest therein, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment. The District will, to the maximum extent permitted by law, indemnify and hold the Corporation harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against any portion of the Project or the Corporation's interest therein.

Payment of Claims

The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Flood Control System Revenues or any part thereof or on any funds in the hands of the District or the Trustee which might impair the security of the Installment Payments, but the District will not be required to pay such claims if the validity thereof shall be contested in good faith.

Compliance with Contracts

The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Project and all other contracts affecting or involving the Project to the extent that the District is a party thereto.

Protection of Security and Rights of the Corporation

The District will preserve and protect the security of the Installment Purchase Agreement and the rights of the Corporation to the Installment Payments under the Installment Purchase Agreement and will warrant and defend such rights against all claims and demands of all persons.

Additional Protection for Officers of the Corporation

The District will, to the maximum extent permitted by law, indemnify and hold the Corporation and each of its directors and officers harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of entering into the Installment Purchase Agreement.

Tax Covenants

The District covenants and agrees to contest by court action or otherwise any assertion by the United States of America or any department or agency thereof that the interest received by the Certificate owners is includable in gross income of the recipient under federal income tax laws. Notwithstanding any other provision of the Installment Purchase Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest with respect to the Certificates will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

1. Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Certificates or of any other moneys or property which would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code;

2. Arbitrage. The District will make no use of the proceeds of the Certificates or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code;

3. Federal Guaranty. The District will make no use of the proceeds of the Certificates or take or omit to take any action that would cause the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

4. Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

5. Hedge Bonds. The District will make no use of the proceeds of the Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause either the Certificates to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Certificates for federal income tax purposes; and

6. Certain Contracts and Swaps. The District may and the Trustee will, if so directed in writing by a Certificate of the District, enter into one or more contracts in order to place any Series of Bonds or Obligations (as such terms are defined in the Flood Control System Master Resolution), or any portion thereof, on the interest rate, currency, cash-flow, or other basis desired by the District, including, without limitation, interest rate swap agreements, currency swap agreements, forward payment conversion agreements, futures contracts, contracts providing for payments based on levels of or changes in interest rates, currency exchange rates, stock or other indices, or contracts to exchange cash flows or a series of payments, and contracts including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, currency rate, spread or similar exposure (each, a "Hedge Agreement"). Prior to entering into a Hedge Agreement, the District will obtain an Opinion of Counsel to the effect that such action is permitted under the laws of the State of California, and that entering in the Hedge Agreement will not adversely affect the exclusion from gross income of interest on the Bonds or Obligations for federal tax purposes. Once a Hedge Agreement is entered into, absent an Opinion of Counsel to the effect that such action will not adversely affect the exclusion from gross income of interest on the Bonds or Obligations for federal income tax purposes, the District will take no action the effect of which would be

either to terminate a Hedge Agreement in advance of its scheduled expiration date or alter the notional amount under the Installment Purchase Agreement. The Opinion of Counsel required under the Installment Purchase Agreement regarding federal income tax matters will be required only with respect to such Bonds or Obligations whose interest is excluded from gross income for federal income tax purposes.

7. Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the District in connection with the issuance of the Certificates and will comply with the covenants and requirements stated therein and incorporated by reference in the Installment Purchase Agreement.

Further Assurances

The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Agreement and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it in the Installment Purchase Agreement.

Notice

Before exercising its right to cause Certificates to be prepaid pursuant to the Installment Purchase Agreement, the District will give written notice to the Trustee and the Certificate Insurer of its intention to exercise such right, specifying the date on which such prepayment will be made, which date will be not less than forty-five (45) nor more than seventy-five (75) days from the date such notice is given, and specifying the amounts and maturities of Certificates to be prepaid.

Events of Default

If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made in the due and punctual payment of the Installment Payments as the same shall become due and payable;

(2) if default shall be made by the District in the performance of any of the agreements or covenants required in the Installment Purchase Agreement to be performed by it (other than as specified in (1) above), and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Corporation; provided, however, that in the event the failure stated in the notice cannot be corrected within such period, then no event of default will be deemed to have occurred under the Installment Purchase Agreement so long as the District has instituted corrective actions within such period and is diligently pursuing to correct such default;

(3) if any Event of Default shall have occurred under the Trust Agreement and shall be continuing; or

(4) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

Remedies of the Corporation

The Corporation will have the right, subject to receipt of consent from the Certificate Insurer -- (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any member of the District's Board of Directors, officer or employee thereof, and to compel the District or any such member of the District's Board of Directors, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Installment Purchase Agreement; (b)by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Corporation; or (c) by suit in equity upon the happening of an Event of Default to require the District and any member of the District's Board of Directors, officers and employees to account as the trustee of an express trust.

Non-Waiver

Nothing in the Installment Purchase Agreement or in any other provision of the Installment Purchase Agreement will affect or impair the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Corporation at the respective due dates from the Flood Control System Revenues and the other amounts in the Installment Purchase Agreement committed for such payment, or will affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Agreement.

A waiver of any default or breach of duty or contract by the Corporation will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or will be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by the Law or by the Installment Purchase Agreement may be enforced and exercised from time to time and as often as will be deemed expedient by the Corporation.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Corporation, the District and the Corporation will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive

No remedy in the Installment Purchase Agreement conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Installment Purchase Agreement or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

Discharge of Obligations

If the Corporation shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates the interest and principal evidenced and represented thereby and the prepayment premiums, if any, thereon or if all Outstanding Certificates shall be deemed to have been paid at the times and in the manner stipulated in the Trust Agreement, then all agreements, covenants and other obligations of the District under the Installment Purchase Agreement will thereupon cease, terminate and become void and be discharged and satisfied.

Liability of District Limited to Flood Control System Revenues

Notwithstanding anything contained in the Installment Purchase Agreement, the District will not be required to advance any moneys derived from any source of income other than the Flood Control System

Revenues as provided in the Installment Purchase Agreement for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement. The District may, however, but in no event will be obligated to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Installment Payments is payable from such Flood Control System Revenues as provided in the Installment Purchase Agreement, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Benefits of Installment Purchase Agreement Limited to Parties

Nothing contained in the Installment Purchase Agreement, expressed or implied, is intended to give to any person other than the District, the Corporation or the assigns of the Corporation any right, remedy or claim under or pursuant to the Installment Purchase Agreement, and any agreement or covenant required in the Installment Purchase Agreement to be performed by or on behalf of the District or the Corporation will be for the sole and exclusive benefit of the other party.

Amendments

The Installment Purchase Agreement may be amended in writing as may be mutually agreed by the District and the Corporation, with the written consent of the Certificate Insurer, so long as the Certificate Insurer is not in default in its payment obligations under the Certificate Insurance Policy, and the Owners of sixty percent or more (60%) in aggregate amount of Certificates Outstanding pursuant to the Trust Agreement, provided that no such amendment will (a) extend the payment date of any Installment Payment, or reduce the amount of any Installment Payment without the prior written consent of the Owner of each Certificate so affected, (b) reduce the percentage of Certificates the consent of the Owners of which is required for the execution of any amendment of the Installment Purchase Agreement, or (c) amend certain provisions of the Installment Purchase Agreement without an unqualified opinion of Special Counsel to the effect that such amendment does not materially adversely affect the exclusion of interest on the Certificates received by the Owners from gross income for federal income tax purposes.

The Installment Purchase Agreement and the rights and obligations of the District and the Corporation under the Installment Purchase Agreement may also be amended or supplemented at any time by an amendment of the Installment Purchase Agreement or supplement to the Installment Purchase Agreement which will become binding upon execution by the District and the Corporation, without the written consent of any Owners but with the written consent of the Certificate Insurer, so long as the Certificate Insurer is not in default in its payment obligations under the Certificate Insurance Policy, but only to the extent permitted by law and only upon receipt of an unqualified opinion of Special Counsel selected by the District and approved by the Corporation to the effect that such amendment or supplement is permitted by the provisions of the Installment Purchase Agreement and is not inconsistent with the Installment Purchase Agreement and does not adversely affect the exclusion of interest on the Certificates received by the Owners from gross income for federal income tax purposes, and only for any one or more of the following purposes --

(1) to add to the covenants and agreements of the Corporation or the District contained in the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Installment Purchase Agreement reserved to or conferred upon the Corporation or the District, and which will not materially adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in the Installment Purchase Agreement or in regard to questions arising under the Installment Purchase

Agreement, as the Corporation or the District may deem necessary or desirable and which will not materially adversely affect the interests of the Owners of the Certificates; or

(3) to make such other amendments or modifications which will not materially adversely affect the interests of the Owners of the Certificates.

Successor Is Deemed Included in all References to Predecessor

Whenever either the District or the Corporation is named or referred to in the Installment Purchase Agreement, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Corporation, and all agreements and covenants required by the Installment Purchase Agreement to be performed by or on behalf of the District or the Corporation will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Waiver of Personal Liability

No official, officer or employee of the District will be individually or personally liable for the payment of the Installment Payments, but nothing contained in the Installment Purchase Agreement will relieve any official, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement.

Partial Invalidity

If any one or more of the agreements or covenants or portions thereof required by the Installment Purchase Agreement to be performed by or on the part of the District or the Corporation shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof will be null and void and will be deemed separable from the remaining agreements and covenants or portions thereof and will in no way affect the validity of the Installment Purchase Agreement.

Assignment

The Installment Purchase Agreement and any rights under the Installment Purchase Agreement may be assigned by the Corporation, as a whole or in part, without the necessity of obtaining the prior consent of the District. The assignment of the Installment Purchase Agreement to the Trustee is solely in its capacity as Trustee under the Trust Agreement and the duties, powers and liabilities of the Trustee in acting under the Installment Purchase Agreement will be subject to the provisions of the Indenture, including, without limitation, the provisions of the Installment Purchase Agreement.

Net Contract

The Installment Purchase Agreement will be deemed and construed to be a net contract, and the District will pay absolutely net during the term of the Installment Purchase Agreement the Installment Payments and all other payments required under the Installment Purchase Agreement, free of any deductions and without abatement, diminution or setoff whatsoever.

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

DEFINITIONS

Definitions. Unless the context otherwise requires, the terms defined under the caption "DEFINTIONS; EQUAL SECURITY" will for all purposes of the Trust Agreement and of any amendment thereof or supplement

thereto and of the Certificates and of any certificate, opinion, request or other document therein mentioned have the meanings specified in the Trust Agreement, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined therein. Capitalized undefined terms used in the Trust Agreement will, unless the context otherwise requires, have the meanings ascribed thereto in the Flood Control System Master Resolution or the Installment Purchase Agreement.

Acquisition and Construction Fund means the fund referred to by that name established pursuant to the Trust Agreement.

Annual Debt Service means, for any Certificate Year, the sum of (1) the interest payable with respect to all Outstanding Certificates in such Certificate Year, assuming that all Outstanding serial Certificates are retired and term Certificates are prepaid as scheduled (except to the extent that such interest is to be paid from the proceeds of the sale of any Certificates), and (2) the principal amount of all Outstanding Certificates due in such Certificate Year.

Authorized Denominations means $5,000 and any integral multiple thereof.

Average Annual Debt Service means the amount determined by dividing the sum of all Annual Debt Service amounts due in each of the Certificate Years following the date of such calculation by the number of such Certificate Years.

"Beneficial Owners" means those individuals, partnerships, corporations or other entities for whom the Participants have caused the Depository to hold Book-Entry Certificates.

Book-Entry Certificates means the Certificates registered in the name of the nominee of DTC, or any successor securities depository for the Certificates, as the registered owner thereof pursuant to the terms and provisions of the Trust Agreement.

Business Day means a day of the year which is not a Saturday or Sunday, or a day on which banking institutions located in California are required or authorized to remain closed, or on which the Federal Reserve system is closed.

Central Zone means that certain geographical zone of the District which includes portions of the communities of Santa Clara, San Jose, Campbell, Monte Sereno, and Los Gatos, and covers the tributaries of the Guadalupe River Watershed.

Certificate of the Corporation means an instrument in writing signed by the President or the Secretary of the Corporation, or by any other officer of the Corporation duly authorized for that purpose.

Certificate of the District means an instrument in writing signed by the Chief Executive Officer, Chief Administrative Officer, Chief Financial Officer, or the Chief Operating Officer for Watersheds of the District, or by any other official of the District duly authorized for that purpose.

Certificate Payment Date means, with respect to any Certificate, the Certificate Payment Date designated therein, which is the February 1 on which the principal component of the Installment Payments becomes due and payable.

Certificates means the Santa Clara Valley Water District Refunding and Improvement Certificates of Participation, Series 2012A delivered in the aggregate principal amount of $_____.

Certificate Rebate Fund means the Certificate Rebate Fund established pursuant to the Trust Agreement.

Certificate Year means the period of twelve consecutive months from each February 2 to February 1 in any year during which Certificates are or will be Outstanding; provided, however, that the final Certificate Year ends on the date on which the Certificates are fully paid or prepaid.

Code means the Internal Revenue Code of 1986, as amended, and any regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it, or any applicable regulations adopted under the Internal Revenue Code of 1954, as amended.

Computation Year means with respect to the Certificates the period beginning on the Delivery Date and ending on February 1, 2013 and thereafter each successive twelve month period commencing on February 2 and ending on the following February 1.

Corporate Trust Office of the Trustee means the principal corporate trust office of the Trustee in San Francisco, California or such other or additional offices as may be specified to the District by the Trustee in writing.

Corporation means the Santa Clara Valley Water District Public Facilities Financing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the execution, sale and delivery of the Certificates and the execution and delivery of the Installment Purchase Agreement, including administrative fees, filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, fees and charges, financial and other professional consultant fees and expenses, costs of rating agencies or credit ratings, fees for transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

Delivery Date means the date on which the Certificates are delivered to the original purchaser thereof.

Depository means the securities depository acting as Depository pursuant to the Trust Agreement.

District means the Santa Clara Valley Water District, a flood control and water district duly organized and existing under and by virtue of the laws of the State of California.

DTC means The Depository Trust Company, New York, New York and its successors.

East Zone means that certain geographical zone of the District which includes the City of Milpitas and portions of the cities of San Jose and Morgan Hill, and covers the tributaries of the Coyote Creek Watershed.

Escrow Agreement means that certain Escrow Agreement dated as of November 1, 2012, by and between the District and U.S. Bank National Association, as escrow agent thereunder.

Event of Default will have the meaning specified in the Trust Agreement.

Fiscal Year means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period later selected and designated by the Board of Directors of the District as the Fiscal Year of the District prescribed by law for community services districts in the State of California.

Flood Control System Master Resolution means Resolution No. 94-60 adopted on June 23, 1994, providing for the allocation of Flood Control System Revenues (as defined therein), as amended or supplemented in accordance therewith.

Information Services means national information services that disseminate securities redemption notices; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the District may specify in a certificate to the Trustee.

Installment Payments has the meaning ascribed thereto in the recitals of the Trust Agreement.

Installment Purchase Agreement has the meaning ascribed thereto in the recitals of the Trust Agreement, as amended or supplemented in accordance therewith.

Interest Payment Date means a date on which interest is due with respect to the Certificates, being each February 1 and August 1, commencing February 1, 2013.

Interest Payment Period means the period from and including the Delivery Date to and including January 31, 2013 and each successive six-month period thereafter commencing February 1 to and including the next succeeding July 31 and commencing August 1 to and including the next succeeding January 31.

Letter of Representations or Representation Letter means the letter of the Trustee and the District delivered to and accepted by the Depository on or prior to the Delivery Date as Book-Entry Certificates setting forth the basis on which the Depository serves as depository for such Book-Entry Certificates, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Depository.

Maximum Annual Debt Service means the maximum annual principal and interest payments under the Installment Purchase Agreement allocable to the Certificates for the current or any future Certificate Year.

Moody's Investors Service or Moody's means Moody's Investors Service Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation will for any reason no longer perform the functions of a securities rating agency, such terms will be deemed to refer to any other nationally recognized rating agency designated by the District.

Nominee means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

North Central Zone means that certain geographical zone of the District which includes the City of Saratoga and portions of the cities of Sunnyvale, Santa Clara, Campbell, Cupertino, Monte Sereno, San Jose, and Los Gatos, and covers the watersheds that flow into Guadalupe Slough, which include Sunnyvale East and West Outfalls, Calabazas Creek, and San Tomas Aquino Creek.

Opinion of Counsel means a written opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation or other counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Corporation or the District.

Outstanding, when used as of any particular time with reference to Certificates of each series, means (subject to the provisions of the Trust Agreement) all Certificates theretofore or thereupon executed by the Trustee pursuant to the Trust Agreement, except --

(1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

(3) Certificates in lieu of or in substitution for which other Certificates have been executed by the Trustee and delivered pursuant to the Trust Agreement.

Owner means any person who is the registered owner of any Outstanding Certificate, as shown on the registration books required to be maintained by the Trustee pursuant to the Trust Agreement.

Participants means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Certificates as securities depository.

Permitted Investments means any of the following instruments which at the time of such investment are legal investments under the laws of the State of California for moneys held under the Trust Agreement and then proposed to be invested therein, but only to the extent that the then current District Investment Policy allows moneys of the District to be invested in such instrument (the Trustee is entitled to rely upon the written investment direction of the District as a determination that such investment is a Permitted Investment):

(i) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee (Direct Obligations");

(ii) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of Freddie Mac ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of Fannie Mae ("FNMAs"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of Ginnie Mae ("GNMAs"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of Sallie Mae; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities;

(iii) direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P;

(iv) commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, "P-1" by Moody's and "A-1" or better by S&P;

(v) Federal funds, unsecured certificates of deposit, deposit accounts, time deposits or bankers acceptances (in each case having maturities of not more than 365 days) of any domestic bank including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that full and timely payment of such deposit or similar obligation is enforceable against the principal office or any branch of such bank, which, at the time of purchase, has a short-term "Bank Deposit" rating of "P-1" by Moody's and a "Short-Term CD" rating of "A-1" or better by S&P;

(vi) deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than $3 million, provided such deposits are continuously and

fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation;

(vii) investments in money-market funds rated "AAAm" or "AAAm-G" by S&P;

(viii) repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided:

1. a master repurchase agreement or specific written repurchase agreement governs the transaction; and

2. the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million or (iii) the Trustee has received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and

3. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and

4. the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and

5. the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

(ix) investment agreements, guaranteed investment contracts, funding agreement, or any other form of corporate note representing the unconditional obligations of entities or agencies with the unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody's and S&P; and

(x) the Local Agency Investment Fund of the State of California.

Record Date means the fifteenth day of the month preceding an Interest Payment Date, whether or not such day is a Business Day.

Related Document means the Flood Control System Master Resolution and the Installment Purchase Agreement.

Standard & Poor's Ratings Services or S&P means Standard & Poor's Ratings Group, a Standard & Poor's Financial Services LLC business, its successors and their assigns, and if such corporation can for any reason no longer perform the functions of a securities rating agency, such terms are deemed to refer to any other nationally recognized securities rating agency designated by the District.

Series 2012A Payment Fund means the Series 2012A Payment Fund established pursuant to the Trust Agreement.

Series 2012A Reserve Fund means the Series 2012A Reserve Fund established pursuant to the Trust Agreement.

Series 2012A Reserve Requirement means (i) initially $_____, and (ii) thereafter the lesser of the amount set forth in clause (i) above and Maximum Annual Debt Service.

Securities Depositories means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax 516/227-4039 or 4190 or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositaries, or no such depositaries as the Corporation or the District may designate in a Certificate of the Corporation or a Certificate of the District, as the case may be, to the Trustee.

Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

State means the State of California.

Substitute Depository means any substitute depository designated pursuant to the Trust Agreement.

Tax Certificate means the Tax Certificate delivered by the District on the Delivery Date, as the same may be amended or supplemented in accordance with its terms.

Trust Agreement means the Trust Agreement, dated as of November 1, 2012, by and among the District, the Corporation and the Trustee, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions thereof.

Trustee means U.S. Bank National Association, a national banking association existing under and by virtue of the laws of the United States of America, or any other association or corporation which may at any time be substituted in its place as provided in the Trust Agreement.

Written Request of the Corporation means an instrument in writing signed by the President or the Secretary of the Corporation, or by any other officer of the Corporation duly authorized for that purpose.

Written Request of the District means an instrument in writing signed by the Chief Executive Officer, Chief Administrative Officer, Chief Financial Officer, Treasury/Debt Officer or the Chief Operating Officer for Watersheds of the District, or by any other official of the District duly authorized for that purpose.

Equal Security. In consideration of the acceptance of the Certificates by the Owners thereof, the Trust Agreement is deemed to be and will constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates, subject to the agreements, conditions, covenants and provisions contained therein; and all agreements, conditions, covenants and provisions set forth therein to be performed by or on behalf of the Trustee are for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or for any cause whatsoever, except as expressly provided therein.

CONDITIONS AND TERMS OF CERTIFICATES

Transfer and Payment of Certificates. Any Certificate may, in accordance with its terms, be transferred in the books required to be kept pursuant to the Trust Agreement by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender, at the Corporate Trust Office of the Trustee, of such Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Certificate or Certificates are surrendered for transfer, the Trustee must

execute and deliver a new Certificate or Certificates of authorized denominations of the same Certificate Payment Date evidencing and representing the same aggregate principal amount. The Trustee will require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege.

The Trustee may deem and treat the Owner of any Certificate as the absolute owner of such Certificates for the purpose of receiving payment thereof and for all other purposes, whether such Certificates are overdue or not, and the Trustee will not be affected by any notice or knowledge to the contrary; and payment of the interest and principal and prepayment premium, if any, evidenced and represented by the Certificates will be made only to such Owner, which payments will be valid and effectual to satisfy and discharge liability on such Certificate to the extent of the sum or sums so paid.

The Trustee is not required to register the transfer of (i) any Certificates during the period established by the Trustee for selection of Certificates for prepayment, if any, or (ii) any Certificate which has been selected for prepayment, if any, in whole or in part.

Exchange of Certificates. Certificates may be exchanged at the Corporate Trust Office of the Trustee for a Certificate evidencing and representing a like aggregate principal amount of Certificates of authorized denominations. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege.

The Trustee is not required to exchange (i) any Certificates during any period established by the Trustee for selection of Certificates for prepayment, if any, or (ii) any Certificates which has been selected for prepayment, if any, in whole or in part.

Registration Books. The Trustee will keep at the Corporate Trust Office of the Trustee sufficient books for the registration of the ownership, transfer and exchange of the Certificates which will at all times be open to inspection by the District, the Corporation or any Owner or his agent duly authorized in writing during normal business hours with reasonable prior notice, and upon presentation for such purpose the Trustee will, under such reasonable regulations as it may prescribe, register the Ownerships or transfer and exchange of the Certificates in such books as provided in the Trust Agreement.

Mutilated, Destroyed, Stolen or Lost Certificates. If any Certificate becomes mutilated, the Trustee, at the expense of the Owner thereof, will thereupon execute and deliver a new Certificate of like tenor and Authorized Denominations of the same Certificate Payment Date evidencing and representing the same aggregate principal amount in exchange and substitution for the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee will be cancelled by the Trustee.

If any Certificate is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee will be given, the Trustee, at the expense of the Owner, will thereupon execute and deliver a new Certificate of like tenor and Authorized Denominations of the same Certificate Payment Date evidencing and representing the same aggregate principal amount in lieu of and in substitution for the Certificate so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Certificate executed and delivered under the Trust Agreement and of the expenses which may be incurred by the District and the Trustee in the premises. Any Certificate executed and delivered under the provisions of the Trust Agreement in lieu of any Certificate alleged to be lost, destroyed or stolen will be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates executed and delivered under the Trust Agreement. Neither the District, the Corporation nor the Trustee will be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of

Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate will be treated as one and the same.

Special Covenants as to Book-Entry Only System for Certificates.

(a) Election of Book-Entry System. Prior to the execution and delivery of the Certificates, the District may provide that such Certificates will be initially executed and delivered as book-entry Certificates. If the District elects to deliver any Certificates in book-entry form, then the District will cause the delivery of a separate single fully registered certificate (which may be typewritten) for each maturity date of such Certificates in an authorized denomination corresponding to that total principal amount of the Certificates designated to mature on such date. Upon initial execution and delivery, the ownership of each such Certificate will be registered in the Certificate registration books in the name of the Nominee, as nominee of the Depository and ownership of the Certificates, or any portion thereof may not thereafter be transferred except as provided in the Trust Agreement.

With respect to book-entry Certificates, the District and the Trustee have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry Certificates. Without limiting the immediately preceding sentence, the District and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry Certificates; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Certificate registration books, of any notice with respect to book-entry Certificates, including any notice of prepayment, if any; (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry Certificates to be prepaid, if any, in the event the District prepays the Certificates in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest with respect to book-entry Certificates. The District and the Trustee may treat and consider the person in whose name each book-entry Certificate is registered in the Certificate registration books as the absolute Owner of such book-entry Certificate for the purpose of payment of principal of, premium and interest with respect to such Certificate, for the purpose of giving notices of prepayment, if any, and other matters with respect to such Certificate, for the purpose of registering transfers with respect to such Certificate, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest with respect to the Certificates only to or upon the order of the respective Owner, as shown in the Certificate registration books, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest with respect to the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Certificate registration books, will receive a Certificate evidencing the obligation to make payments of principal of, premium, if any, and interest with respect to the Certificates. Upon delivery by the Depository to the Owner and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Trust Agreement with respect to Record Dates, the word Nominee in the Trust Agreement will refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book-entry Certificates for the Depository's book-entry system, the District and the Trustee, if required by the Depository, will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations will not in any way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in such book-entry Certificates other than the Owners, as shown on the Certificate registration books. By executing a Letter of Representations, the District agrees to take all action necessary at all times so that the District will be in compliance with all representations of the District in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the District and the Trustee will take such other actions, not inconsistent with the Trust Agreement, as are reasonably necessary to qualify book-entry Certificates for the Depository's book-entry program.

(c) Selection of Depository. In the event: (i) the Depository determines not to continue to act as securities depository for book-entry Certificates; or (ii) the District determines that continuation of the

book-entry system is not in the best interest of the beneficial owners of the Certificates or the District, then the District will discontinue the book-entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District will prepare or direct the preparation of a new single, separate, fully registered Certificate for each of the maturity dates of such book-entry Certificates, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in the Trust Agreement. If the District fails to identify another qualified securities depository to replace the Depository, then the Certificates will no longer be restricted to being registered in such Certificate registration books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such Certificates will designate, in accordance with the Trust Agreement.

(d) Payments To Depository. Notwithstanding any other provision of the Trust Agreement to the contrary, so long as all Outstanding Certificates are held in book-entry form and registered in the name of the Nominee, all payments of principal of, prepayment premium, if any, and interest with respect to such Certificate and all notices with respect to such Certificate will be made and given, respectively, to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Trust Agreement.

(e) Transfer of Certificates to Substitute Depository.

(1) The Certificates will be initially executed and delivered as provided in the Trust Agreement. Registered ownership of such Certificates, or any portions thereof, may not thereafter be transferred except:

(i) to any successor of DTC or its nominee, or of any Substitute Depository; provided that any successor of DTC or Substitute Depository is qualified under any applicable laws to provide the service proposed to be provided by it;

(ii) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository must be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(2) In the case of any transfer pursuant to clause (i) or clause (ii) above, upon receipt of all Outstanding Certificates by the Trustee, together with a written request of the District to the Trustee designating the Substitute Depository, a single new Certificate, which the District prepares or causes to be prepared, will be executed and delivered for each maturity of Certificates then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the District. In the case of any transfer pursuant to clause (iii) above, upon receipt of all Outstanding Certificates by the Trustee, together with a written request of the District to the Trustee, new Certificates, which the District will prepare or cause to be prepared, will be executed and delivered in such denominations and registered in the names of such persons as are requested in a written request of the District, subject to the limitations of the Trust Agreement, provided that the Trustee is not required to deliver such new Certificates within a period of less than sixty (60) days from the date of receipt of such written request from the District.

(3) In the case of a partial prepayment, if any, or an advance refunding of any Certificates evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any

Substitute Depository or its successor) will make an appropriate notation on such Certificates indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee is not liable for such Depository's failure to make such notations or errors in making such notations.

(4) The District and the Trustee are entitled to treat the person in whose name any Certificate is registered as the Owner thereof for all purposes of the Trust Agreement and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee do not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Certificates. Neither the District nor the Trustee will have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any Certificates, and the Trustee may rely conclusively on its records as to the identity of the Owners of the Certificates.

INSTALLMENT PAYMENTS

Pledge of Installment Payments. All Installment Payments will be paid directly by the District to the Trustee and if received by the Corporation at any time will be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. All Installment Payments received by the Trustee will be held in trust by the Trustee under the terms of the Trust Agreement. The Installment Payments will be deposited by the Trustee as and when received in the Series 2012A Payment Fund, which fund the Trustee has established and maintains so long as any Certificates are Outstanding. All money in the Series 2012A Payment Fund will be held in trust by the Trustee for the benefit of the Owners of the Certificates. The District and the Corporation pledge and grant a lien on the Series 2012A Payment Fund to the Trustee for the benefit of the Owners of the Certificates.

Receipt and Deposit of Installment Payments in the Series 2012A Payment Fund; Use of Money in the Series 2012A Payment Fund.

(a) In order to carry out and effectuate the pledge contained in the Trust Agreement, subject to the Trust Agreement, the Trustee will deposit the Installment Payments when and as received in trust in the Series 2012A Payment Fund for the benefit of the Owners of the Certificates. All Installment Payments will be accounted for and held in trust. Notwithstanding anything to the contrary in the Installment Purchase Agreement, Installment Payments will be deposited by the District on the Business Day prior to the relevant Interest Payment Date with the Trustee. All Installment Payments will be allocated, applied and disbursed by the Trustee solely to the purposes and uses set forth in the Trust Agreement, and will be accounted for separately and apart from all other accounts, funds, money or other resources of the Trustee.

(b) Money in the Series 2012A Payment Fund will be used and withdrawn by the Trustee for the purpose of paying (i) the interest evidenced and represented by the Certificates as it becomes due and payable (including accrued interest evidenced and represented by the Certificates purchased or prepaid prior to maturity, if any), and (ii) the principal evidenced and represented by the Certificates as it becomes due and payable.

The Series 2012A Reserve Fund. The Trustee will maintain and hold in trust the Series 2012A Reserve Fund and will deposit therein the amounts required to be deposited therein pursuant to the Installment Purchase Agreement and the Trust Agreement and apply moneys in the Series 2012A Reserve Fund in accordance with the Trust Agreement.

If one day prior to any Interest Payment Date the money in the Series 2012A Payment Fund is insufficient to make the payments required by the Trust Agreement with respect to 2012A Certificates on such Interest Payment Date, the Trustee will transfer from the Series 2012A Reserve Fund to the Series 2012A Payment Fund the amount of such insufficiency.

In the event that the Trustee has transferred money from the Series 2012A Reserve Fund to the Series 2012A Payment Fund in accordance with the Trust Agreement, upon receipt of the moneys from the District to increase the balance in the Series 2012A Reserve Fund to the Series 2012A Reserve Requirement, the Trustee will deposit such money in the Series 2012A Reserve Fund.

If the amount available and contained in the Series 2012A Reserve Fund exceeds the Series 2012A Reserve Requirement and if the District is not then in default under the Installment Purchase Agreement, the Trustee will semiannually on or before February 1and August 1 withdraw the amount of such excess from the Series 2012A Reserve Fund and will deposit such amount in the Series 2012A Payment Fund, and for this determination the Trustee will make a valuation of the Series 2012A Reserve Fund on each Interest Payment Date. In the event a portion of the 2012A Certificates are refunded or defeased, and upon direction by the District, the Trustee will make a valuation of the Series 2012A Reserve Fund on the date of such refunding or defeasance and transfer any excess from the Series 2012A Reserve Fund in accordance with such direction from the District. Except for such withdrawals, all moneys in the Series 2012A Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of paying when due principal and interest with respect to the 2012A Certificates in the event that no other moneys of the District are available therefor or to pay such amounts at maturity.

For the purpose of determining the amount in the Series 2012A Reserve Fund, all Permitted Investments credited to the Series 2012A Reserve Fund will be valued at the face or par value (inclusive of all interest accrued but not paid). In making any valuations of Permitted Investments, the Trustee will utilize such securities pricing services as may be available to it, including those within the Trustee's regular accounting system.

Investment of Moneys in Funds. Moneys in the funds established with the Trustee under the Trust Agreement must, in accordance with a Written Request of the District, be invested by the Trustee in Permitted Investments. The Trustee may conclusively rely on any direction contained in a Written Request of the District to invest in investments that such investments are Permitted Investments. In the absence of a Written Request of the District, the Trustee will promptly invest moneys in clause (vii) of the definition of Permitted Investments. The obligations in which moneys in the said funds are invested will mature on or prior to the date on which such moneys are estimated to be required to be paid out under the Trust Agreement. The obligations in which moneys in the Series 2012A Reserve Fund are so invested will be invested in obligations maturing no later than ten years after the date of investment; provided no such investment matures later than the final Certificate Payment Date of the Certificates; provided further, if such investments may be redeemed at par so as to be available on each Interest Payment Date, any amount of the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final Certificate Payment Date of the Certificates. The Trustee will sell at the best price obtainable or present for redemption any obligations so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment required under the Trust Agreement. Notwithstanding anything in the Trust Agreement to the contrary, the Trustee will not be responsible for any loss from investments, sales or transfers undertaken in accordance with the Trust Agreement. Any interest, income or profits from the deposits or investments of money in the Series 2012A Reserve Fund (except to the extent required by the Trust Agreement) will be deposited in the Series 2012A Payment Fund. For purposes of determining the amount of deposit in any fund held under the Trust Agreement, all Permitted Investments credited to such fund are valued at the face or par value thereof. Except as otherwise provided in the Trust Agreement, Permitted Investments representing an investment of moneys attributable to any fund and all investment profits or losses thereon will be deemed at all times to be a part of said fund. To the extent that Permitted Investments are registrable securities, such Permitted Investments will be registered in the name of the Trustee.

The Trustee may act as principal or agent in the acquisition or disposition of investments and may commingle moneys in funds and accounts for the purpose of investment.

The Trustee is authorized, in making or disposing of any investment permitted by the Trust Agreement, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District will not receive such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Trust Agreement.

Application of the Certificate Rebate Fund.

(a) Absent an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Certificates will not be adversely affected, the District will cause to be deposited in the Certificate Rebate Fund such amounts as are required to be deposited therein pursuant to the Trust Agreement and the Tax Certificate. Within the Certificate Rebate Fund, there will be established two separate accounts designated the "Rebate Account" and the "Alternative Penalty Account". All moneys at any time deposited in the Rebate Account or the Alternative Penalty Account must be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Certificate Rebate Fund are governed by the Trust Agreement and the Tax Certificate, unless and to the extent that the District delivers to the Trustee an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Certificates will not be adversely affected if such requirements are not satisfied.

(b) The following provisions relate to the Rebate Accounts and the Alternative Penalty Accounts of the Certificate Rebate Fund:

(1) Rebate Account. The following requirements must be satisfied with respect to the Rebate Account:

(i) Annual Computation. Within 55 days of the end of each Certificate Year, the District will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (*e.g.*, the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for this purpose treating the last day of the applicable Certificate Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "Rebatable Arbitrage"). The District will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Trust Agreement.

(ii) Annual Transfer. Within 55 days of the end of each applicable Certificate Year, upon the written direction of a representative of the District, an amount will be deposited to the Rebate Account by the Trustee from any funds legally available for such purpose (as specified by the District in the aforesaid written direction), if and to the extent required so that the balance in the Rebate Account will equal the amount of Rebatable Arbitrage so calculated in accordance with (i) above. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from a representative of the District, the Trustee will withdraw the excess from the Rebate Account and then credit the excess to the Series 2012A Payment Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed in writing by a representative of the District, to the United States Treasury, out of amounts in the Rebate Account,

(X) Not later than 60 days after the end of (A) the fifth Certificate Year, and (B) each applicable fifth Certificate Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Certificate Year; and

(Y) Not later than 60 days after the payment of all the Certificates, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Certificate Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the District will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the Trust Agreement will be made to the Internal Revenue Service Center on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T, or will be made in such other manner as provided under the Code.

(2) Alternative Penalty Account.

(i) Six-Month Computation. If the 1½% Penalty has been elected, within 85 days of each particular Six-Month Period, the District will determine or cause to be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the applicable Six-Month Period. The District will obtain expert advice in making such determinations.

(ii) Six-Month Transfer. Within 85 days of the close of each Six-Month Period, upon the written direction of a representative of the District, the Trustee will deposit in the Alternative Penalty Account from any legally available source of funds (as specified by the District in the aforesaid written direction), if and to the extent required, so that the balance in the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in Subsection (b)(2)(i) above. In the event that immediately following the transfer provided in the previous sentence, the amount then on deposit to the credit of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by Subsection (b)(2)(iii) below, the Trustee, at the written direction of a representative of the District, will withdraw the excess from the Alternative Penalty Account and credit the excess to the Series 2012A Payment Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed in writing by a representative of the District, to the United States Treasury, out of amounts in the Alternative Penalty Account, not later than 90 days after the close of each Six-Month Period the 1½% Penalty, if applicable and payable, computed in accordance with Section 148(f)(4) of the Code. In the event that, prior to the time of any payment required to be made from the Alternative Penalty Account, the amount in such account is not sufficient to make such payment when such payment is due, the District will

calculate the amount of such deficiency and direct the Trustee to deposit an amount received from any legally available source of funds equal to such deficiency into the Alternative Penalty Account prior to the time such payment is due. Each payment required to be made pursuant to the Trust Agreement will be made to the Internal Revenue Service on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T or will be made in such other manner as provided under the Code.

(c) Disposition of Unexpended Funds. Any funds remaining in the Certificate Rebate Fund after payment of the principal and interest evidenced and represented by the Certificates, the payments described in the Trust Agreement, may be withdrawn by the District and utilized in any manner by the District.

(d) Survival of Defeasance. Notwithstanding anything in the Trust Agreement to the contrary, the obligation to comply with the requirements of the Trust Agreement will survive the defeasance of the Certificates.

(e) Duty of Trustee. The Trustee is fully protected and will be deemed to have complied with the Trust Agreement if it complies with the written directions of the District delivered pursuant to the Trust Agreement and the Trustee will have no responsibility to enforce compliance by the District with the Tax Certificate.

COVENANTS

Compliance with Trust Agreement; Compliance of Laws and Regulations. The Trustee will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the Trust Agreement; and neither the Corporation nor the District will suffer or permit any default by them to occur under the Trust Agreement, but each will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by them.

The Corporation and the District will faithfully observe and perform all lawful and valid obligations or regulations now later imposed on them by contract, or prescribed by any state or national law, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise right or privilege now owned or later acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges will be maintained and preserved and will not be abandoned, forfeited or in any manner impaired.

Tax Covenants. The District covenants and agrees to contest by court action or otherwise any assertion by the United States of America or any department or agency thereof that the interest evidenced and represented by the Certificates is includable in gross income of the recipient under federal income tax laws. Notwithstanding any other provision of the Trust Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest evidenced and represented by the Certificates will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Certificates or of any other moneys or property which would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the Certificates or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(c) Federal Guaranty. The District will make no use of the proceeds of the Certificates or take or omit to take any action that would cause the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause either the Certificates to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest evidenced and represented by the Certificates for federal income tax purposes; and

(f) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the District in connection with the execution and delivery of the Certificates and will comply with the covenants and requirements stated therein and incorporated by reference in the Trust Agreement.

Accounting Records and Statements. The Trustee will keep proper books of record and account in accordance with industry standards in which complete and correct entries will be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Installment Payments and the proceeds of the Certificates or the obligation which they evidence and represent. Such records will specify the account or fund to which each investment (or portion thereof) held by the Trustee is to be allocated and will set forth, in the case of each investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, and (d) the amounts and dates of any payments made with respect thereto. Such records will be open to inspection by any Owner or his agent duly authorized in writing at reasonable hours and under reasonable conditions and upon reasonable written request during the regular business hours of the Trustee on any Business Day. As soon as available after June 30, 2013, and continuing after each June 30th so long as any Certificates are Outstanding, the Trustee will furnish to the Corporation and to any Owner who may so request (at the expense of such Owner) a complete statement covering the receipts, deposits and disbursements of the money held under the Trust Agreement for the preceding fiscal year. In addition, the Trustee will provide the District with a monthly accounting of the funds and accounts held under the Trust Agreement; provided, that the Trustee will not be obligated to provide an accounting for any fund or account that (a) has a balance of $0.00 and (b) has not had any activity since the last reporting date.

Installment Purchase Agreement and Other Documents. The Corporation will at all times maintain and vigorously enforce all of its rights under the Installment Purchase Agreement, and will promptly collect or cause to be collected all Installment Payments as the same become due under the Installment Purchase Agreement, and will promptly and vigorously enforce its rights against any person who does not pay such Installment Payments as they become due under the Installment Purchase Agreement. The Corporation and the District will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Purchase Agreement by the purchaser thereunder.

Other Liens. The District will keep the Series 1994A Project free from judgments, mechanics, and materialmen's liens (except those arising from the acquisition, construction and installation of the Series 1994A Project) and free from all liens, claims, demands and encumbrances of whatsoever prior nature or character to the end that the security for the Certificates provided in the Trust Agreement will at all times be maintained and preserved free from any claim or liability which might hamper the District in conducting its business or interfere with the District's operation of the Series 1994A Project, and the Trustee at its option (after first giving the District thirty (30) days written notice to comply therewith and failure of the District to so comply within such period) may (but will not be obligated to) defend against any and all actions or proceedings in which the validity

of the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such action or proceeding; provided, however, that in defending such actions or proceedings or in paying or compromising such claims or demands the Trustee will not in any event be deemed to have waived or released the District from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity thereof and the pledge of the Installment Payments made in the Trust Agreement and to perform such agreements and covenants.

Prosecution and Defense of Suits. The District will promptly from time to time take or cause to be taken such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Series 1994A Project, whether now existing or later developing, and will prosecute or cause to be prosecuted all such suits, actions and other proceedings as may be appropriate for such purpose and will indemnify and hold the Trustee harmless from all loss, cost, damage and expense, including attorney's fees, which it may incur by reason of any such defect, cloud, suit, action or proceeding.

The District will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim arising out of the receipt, application or disbursement of any of the Installment Payments or involving the rights of the Trustee under the Trust Agreement; provided that the Trustee at its election may appear in and defend any such suit, action or proceeding.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the owners all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Trust Agreement.

Acquisition of the Series 1994A Project and Sale of the Series 1994A Project. The Corporation will acquire the Series 1994A Project, or cause the Series 1994A Project to be acquired, with the proceeds of the Certificates and will sell the Series 1994A Project to the District pursuant to the Installment Purchase Agreement.

Recordation and Filing. The District will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain at all times a security interest in the money in the Series 2012A Payment Fund under the Trust Agreement in such manner, at such times and in such places as may be required in order to fully perfect, preserve and protect the benefit, protection and security of the Owners and the rights of the Trustee under the Trust Agreement (with copies of each such document being forwarded to the Trustee), and the District will do whatever else may be necessary or be reasonably required in order to perfect and continue the pledge of and lien on the money in the funds described in the Trust Agreement.

THE TRUSTEE

Employment and Duties of the Trustee. The Corporation and the District appoint and employ U.S. Bank National Association, in San Francisco, California, as Trustee to receive, deposit and disburse the Installment Payments as provided in the Trust Agreement, to prepare, execute, deliver, transfer, exchange and cancel the Certificates as provided therein, to pay the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates to the Owners thereof as provided therein and to perform the other obligations contained therein; all in the manner provided therein and subject to the conditions and terms thereof. By executing and delivering the Trust Agreement, the Trustee undertakes to perform such obligations (and only such obligations) as are specifically set forth in the Trust Agreement, and no implied covenants or obligations will be read therein against the Trustee.

Prior to any resignation by the Trustee pursuant to the Trust Agreement, the Trustee will faithfully observe and perform all lawful and valid obligations or regulations now or later imposed on it by contract, or prescribed by any state or federal law, or by any officer, board or commission having jurisdiction or control over

the Trustee, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or later acquired by it, including its right to exist and carry on its business, to the end that such franchises, rights and privileges will be maintained and preserved and will not be abandoned, forfeited or in any manner impaired.

Whenever provision is made in the Trust Agreement for the cancellation by the Trustee of any Certificates, the Trustee will destroy such Certificates and deliver a certificate of such destruction to the District.

Duties, Immunities and Liabilities of Trustee.

(a) The Trustee will, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement and no implied duties or obligations will be read into the Trust Agreement against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(b) So long as no Event of Default has occurred and is continuing, upon thirty (30) days' written notice to the Trustee, the District may remove the Trustee at any time and will remove the Trustee at any time requested to do so by an instrument or concurrent instruments in writing, or in the case of the Certificates, the Owners of the Certificates of not less than a majority in aggregate amount of Certificates then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with the Trust Agreement or becomes incapable of acting, or commences a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property is appointed, or any public officer takes control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon appoints a successor Trustee by an instrument in writing.

(c) The Trustee may resign by giving written notice of such resignation to the District and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the bond register. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and has accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, at the expense of the District, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Trust Agreement will signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Trust Agreement; but, nevertheless, at the written request of the District or of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Trust Agreement and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Trust Agreement set forth. Upon request of the successor Trustee, the District will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Trust Agreement, such successor Trustee will mail a notice of the succession

of such Trustee to the trusts under the Trust Agreement by first class mail, postage prepaid, to the Owners at their addresses listed in the bond register.

(e) Any Trustee appointed under the provisions of the Trust Agreement must be a trust company or bank having trust powers, having a corporate trust office in California, the combined capital, surplus and undivided profits of such trust company or bank (or in the event that such trust company or bank is a member of a bank holding company system, of its bank holding company) of at least fifty million dollars ($50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Trust Agreement the combined capital and surplus of such bank or trust company is deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the Trust Agreement, the Trustee will resign immediately in the manner and with the effect specified in the Trust Agreement.

(f) No provision in the Trust Agreement requires the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement.

(g) The Trustee is not responsible for the sufficiency, timeliness or payment of the Installment Payments, the maintenance of insurance as required by the Installment Purchase Agreement or reviewing any report or certificate required to be provided under the Trust Agreement or under the Installment Purchase Agreement.

(h) The Trustee is not accountable for the use or application by the District, the Corporation or any other party of any funds which the Trustee has released under the Trust Agreement.

(i) The Trustee may employ attorneys, agents or receivers in the performance of any of its duties under the Trust Agreement and is not answerable for the misconduct of any such attorney, agent or receiver selected by it with reasonable care.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it is a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company is eligible under the Trust Agreement, will succeed to the rights and obligations of such Trustee without the execution or filing of any paper or any further act, anything therein to the contrary notwithstanding.

Compensation and Indemnification. The District will pay the Trustee, or cause the Trustee to be paid, reasonable compensation for its services rendered under the Trust Agreement and will reimburse the Trustee for reasonable expenses (including reasonable fees and expenses of its attorneys) incurred by the Trustee in the performance of its obligations under the Trust Agreement.

The District agrees, to the extent permitted by law, to indemnify the Trustee and its respective officers, directors, members, employees, attorneys and agents for, and to hold them harmless from and against, any loss, liability or expense incurred without negligence or willful misconduct on their part arising out of or in connection with the acceptance or administration of the trusts imposed by the Trust Agreement, including performance of their duties under the Trust Agreement, including the costs and expenses of defending themselves against any claims or liability in connection with the exercise or performance of any of their powers or duties under the Trust Agreement. Such indemnity will survive the termination or discharge of the Trust Agreement and resignation or removal of the Trustee.

Liability of Trustee.

(a) The recitals of facts in the Trust Agreement and in the Certificates are statements of the District, and the Trustee assumes no responsibility for the correctness of the same, and makes no representations as to the validity or sufficiency of the Trust Agreement, the Installment Purchase Agreement or of the Certificates, and will incur no responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Certificates assigned to or imposed upon it. The Trustee will, however be responsible for its representations contained in its certificate of execution on the Certificates. The Trustee will not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct. The Trustee may become the Owner of Certificates with the same rights it would have if it were not Trustee or and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee represents the Owners of a majority in aggregate amount of Certificates then Outstanding.

(b) The Trustee is not liable for any error of judgment made in good faith by a responsible officer, unless the Trustee has been negligent in ascertaining the pertinent facts.

(c) The Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of the Certificates, of not less than 25% in aggregate amount of Certificates, at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Trust Agreement.

(d) The Trustee is not liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Trust Agreement, except for actions arising from the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated under the Trust Agreement cannot be construed as a mandatory duty.

(e) The Trustee will not be deemed to have knowledge of any Event of Default under the Trust Agreement unless and until it has actual knowledge thereof, or has received written notice thereof at the Corporate Trust Office of the Trustee. Except as otherwise expressly provided in the Trust Agreement, and subject to the provisions of the Trust Agreement, the Trustee is not bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements therein or of any of the documents executed in connection with the Certificates, or as to the existence of an Event of Default under the Trust Agreement or thereunder. The Trustee is not responsible for the validity or effectiveness of any collateral given to or held by it.

(f) The Trustee makes no representations with respect to any information, statement, or recital in, and has no liability with respect to, any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

(g) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(h) The permissive right of the Trustee to do things enumerated in the Trust Agreement is not to be construed as a duty.

Right to Rely on Documents. The Trustee is protected in acting, and may conclusively rely, upon any notice, resolution, request, requisition, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and need not conduct any independent investigation of the matters covered therein. The Trustee may consult with counsel, who may be counsel but need not of or to the District, with regard to legal questions, and the opinion of such counsel

will be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by the Trust Agreement the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the District, and such Certificate of the District will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Trust Agreement in reliance upon such Certificate of the District, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Trust Agreement will be retained in its possession and will be subject at all reasonable times to the inspection of the District and any Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

AMENDMENT OF THE TRUST AGREEMENT

Amendment of the Trust Agreement. The Trust Agreement and the rights and obligations of the District, the Corporation and of the Owners may be amended at any time by a supplemental trust agreement which becomes binding with the written consent of the Owners of a majority in aggregate amount of Certificates then outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement. No such amendment will (1) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the District to pay the interest or principal or prepayment premium, if any, evidenced and represented by the Certificates at the time and place and at the rate and in the currency provided in the Trust Agreement without the express written consent of the Owner of such Certificates, or (2) permit the creation by the District of any pledge of the Installment Payments as provided therein superior to or on a parity with the pledge created by the Trust Agreement for the benefit of the Certificates except as provided in the Installment Purchase Agreement, or (3) modify any rights or obligations of the Trustee without its prior written assent thereto.

The Trust Agreement and the rights and obligations of the District and of the Owners may also be amended at any time by a supplemental trust agreement which will become binding upon adoption without the consent of any Owners, but only to the extent permitted by law and after receipt of an approving opinion of Special Counsel and only for any one or more of the following purposes -

(a) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the District may deem desirable or necessary and not inconsistent with the Trust Agreement and which will not materially adversely affect the interests of the Owners; or

(b) to make any other change or addition to the Trust Agreement which will not materially adversely affect the interests of the Owners, or to surrender any right or power reserved in the Trust Agreement to or conferred therein on the District.

Disqualified Certificates. Certificates owned or held by or for the account of the Corporation or the District will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement, and will not be entitled to consent to or take any other action provided therein.

Endorsement or Replacement of Certificates After Amendment. After the effective date of any action taken as provided in the Trust Agreement, the Corporation may determine that the Certificates may bear a notation by endorsement in form approved by the Corporation as to such action, and in that case upon demand of the

Owner of any Outstanding Certificates and presentation of his Certificate for such purpose at the Corporate Trust Office of the Trustee a suitable notation as to such action will be made on such Certificate. If the Corporation or the District so determines, new Certificates so modified as, in the opinion of the Corporation or the District, will be necessary to conform to such action will be prepared and executed, and in that case upon demand of the Owner of any Outstanding Certificate such new Certificates will be exchanged at the Corporate Trust Office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Amendment by Mutual Consent. The provisions of the Trust Agreement do not prevent any Owner from accepting any amendment as to the particular Certificates owned by him, provided that due notation thereof is made on such Certificates.

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Events of Default. The following provisions relate to the Certificates. If one or more of the following events (herein called "Events of Default") happens:

(a) if default is made in the District's payment of the Installment Payments when and as the same becomes due and payable as specified in the Installment Purchase Agreement or has failed to make any other payment required to be paid thereunder at the time specified therein; or

(b) if default is made by the District in the performance of any of the other agreements or covenants required in the Trust Agreement or in the Installment Purchase Agreement to be performed by the District, and such default continues for a period of sixty (60) days after the District has been given notice in writing of such default by the Trustee; provided, however, that if the failure stated in the notice cannot be corrected within such period, then no event of default is deemed to have occurred under the Trust Agreement so long as the District has instituted corrective actions within such period and is diligently pursuing to correct such default.

Proceedings by Trustee. Upon the happening and continuance of any Event of Default the Trustee will immediately at the written request of the Owners of not less than a majority in aggregate amount of Certificates Outstanding will (but only to the extent indemnified to its satisfaction from fees and expenses, including attorneys' fees), do the following:

(a) by mandamus, or other suit, action or proceeding at law or in equity, to enforce its rights against the Corporation or the District or any director, officer or employee of the District, and to compel the Corporation or the District or any such director, officer or employee of the District to observe or perform its or his duties under applicable law and the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed or performed by it or him;

(b) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and

(c) by suit in equity upon the happening of an Event of Default under the Trust Agreement to require the Corporation and the District and the directors, officers and employees of the District to account as the trustee of an express trust.

Non-Waiver. A waiver of any default under the Trust Agreement of breach of any obligation by the Trustee thereunder or by the Corporation or the District under the Installment Purchase Agreement will not affect any subsequent default thereunder or any subsequent breach of an obligation by the Trustee thereunder or impair any rights or remedies on any such subsequent default thereunder or on any such subsequent breach of an obligation by the Trustee thereunder. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default under the Trust Agreement impairs any such right or remedy or is construed to be a

waiver of any such default under the Trust Agreement or an acquiescence therein, and every right or remedy conferred upon the Trustee by applicable law or by the Trust Agreement may be enforced and exercised from time to time and as often as is deemed expedient by the Trustee.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Corporation or the District, the Trustee, the Corporation and the District are restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Application of Funds. All moneys on deposit in the funds and accounts held under the Trust Agreement (other than the Certificate Rebate Fund) and all moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of Article IV of the Installment Purchase Agreement is deposited in a segregated account in the Series 2012A Payment Fund, and is applied by the Trustee in the following order and upon presentation of the several Certificates and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid.

First, Costs and Expenses: ratably to the payment of the costs and expenses of the Trustee and then of the Owners in declaring such Event of Default, including reasonable compensation to its or their agents, accountants and counsel;

Second, Interest: to the payment to the persons entitled thereto of all payments of interest evidenced and represented by the Certificates then due, and, if the amount available is not sufficient to pay in full any payment or payments of interest coming due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal evidenced and represented by any Certificates which became due, whether on the Certificate Payment Date or by call for prepayment, if any, in the order of their due dates, with interest on the overdue principal and interest evidenced and represented by the Certificates to be paid at a rate equal to the rate or rates of interest then applicable to the Certificates if paid in accordance with their terms, and, if the amount available is not sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of interest, principal and prepayment premiums, if any, due on such date to the persons entitled thereto, without any discrimination or preference.

Remedies Not Exclusive. No remedy conferred in the Trust Agreement upon or reserved therein to the Trustee is intended to be exclusive and all remedies are cumulative and each remedy is in addition to every other remedy given under the Trust Agreement or now or later existing under applicable law or equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other applicable law.

No Liability by the Corporation to the Owners. Except as expressly provided in the Trust Agreement, the Corporation does not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments by the District, or with respect to the observance or performance by the District of the other agreements, conditions, covenants and terms contained in the Installment Purchase Agreement or therein required to be observed or performed by it, or with respect to the performance by the Trustee of any obligation contained therein required to be performed by it.

No Liability by the District to the Owners. Except for the payment when due of the Installment Payments and the observance and performance of the other agreements, conditions, covenants and terms contained in the Installment Purchase Agreement or in the Trust Agreement required to be observed or performed by it, the District does not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery, transfer, exchange or cancellation of the Certificates or the receipt, deposit or disbursement of

the Installment Payments by the Trustee, or with respect to the performance by the Trustee of any obligation contained in the Trust Agreement required to be performed by it.

No Liability by the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee does not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments by the District, or with respect to the observance or performance by the District of the other agreements, conditions, covenants and terms contained in the Installment Purchase Agreement or in the Trust Agreement required to be observed and performed by the District. The recitals of facts, covenants and agreements contained in the Trust Agreement and in the Certificates are taken as statements, covenants and agreements of the District and the Corporation, and the Trustee neither assumes any responsibility for the accuracy of the same, nor makes any representations as to the validity or sufficiency of the Trust Agreement or of the certificates nor incurs any responsibility in respect thereof, other than in connection with the duties or obligations therein or in the Certificates assigned to or imposed upon the Trustee.

Actions by the Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner has the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated, and the Trustee is appointed (and the successive respective Owners, by taking and holding the same, will be conclusively deemed so to have appointed the Trustee) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any suit, action, or proceeding and to do perform any and all acts and things for and on behalf of the respective Owners, as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact; provided, that the Trustee need not institute any such suit, action or proceeding until it has been first provided with indemnity adequate to it.

Power of the Trustee to Control Proceedings. In the event that the Trustee, upon the occurrence of an Event of Default, has taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement whether upon its own discretion or upon the request of the Owners of the Certificates, of at least ten percent (10%) in aggregate principal amount of the Certificates then outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Certificates with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, that the Trustee will not, unless there no longer continues an Event of Default under the Trust Agreement, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with the Trustee a written request signed by the Owners of the Certificates of at least a majority in aggregate principal amount of the Certificates then outstanding, together with indemnification satisfactory to the Trustee, opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

DEFEASANCE

Discharge of Certificates and Trust Agreement. (a) If the Trustee pays or causes to be paid or there otherwise is paid to the Owners of any Outstanding Certificates the interest and principal and prepayment premiums, if any, evidenced and represented thereby at the times and in the manner stipulated therein, then such Owners evidenced and represented thereby ceases to be entitled to the pledge of and lien on the moneys in the Series 2012A Payment Fund and the Series 2012A Reserve Fund as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the District to said Owners under the Trust Agreement thereupon ceases, terminates and becomes void and will be discharged and satisfied. In such event, the Trustee will execute and deliver to the Corporation and the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the District all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and principal and prepayment premiums, if any, evidenced and represented thereby.

(b) Any Outstanding Certificates will on their Certificate Payment Dates be deemed to have been paid within the meaning of and with the effect expressed in the Trust Agreement if there is on deposit with the Trustee money held in trust for the benefit of the Owners of such Certificates which is sufficient to pay the

interest and principal and prepayment premiums, if any, evidenced and represented by such Certificates payable on and prior to their Certificate Payment Dates.

(c) In connection with the discharge of a portion of the Certificates in accordance with the Trust Agreement, the District may deliver a Written Request to the Trustee to determine the excess to be on deposit in the Series 2012A Reserve Fund upon such discharge and the Trustee makes such determination and transfers such excess in accordance with such Written Direction of the District.

Unclaimed Money. Anything contained in the Trust Agreement to the contrary notwithstanding, the Trustee will notify the District and the Corporation of any money held by the Trustee in trust for the payment and discharge of any of the Certificates which has remained unclaimed for two (2) years after the date when such Certificates have become due and payable, either at their stated maturity dates or by call for prepayment prior to maturity, if any, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee. The Trustee will at the Written Request of the District repay such money to the District as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the District for the payment of such Certificates.

MISCELLANEOUS

Liability of District Limited to Installment Payments. Notwithstanding anything contained in the Trust Agreement to the contrary, the District is not required to advance any money derived from any source of income other than the Installment Payments as provided therein for the payment of the interest or principal or prepayment premiums, if any, evidenced and represented by the Certificates or for the performance of any agreements or covenants therein contained. The District may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose.

The Certificates are payable solely from the Installment Payments and amounts on deposit in the funds established under (other than amounts on deposit in the Certificate Rebate Fund created pursuant to the Trust Agreement). The Certificates do not constitute a debt or liability of the District or of the State of California and neither the faith and credit of the District nor of the State are pledged to the payment of the principal, or interest evidenced and represented by the Certificates.

Benefits of the Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended or will be construed to confer upon, or to give or grant to, any person or entity other than the Corporation, the District, the Trustee and the Owners any right, remedy or claim under or by reason thereof. Any agreement or covenant required in the Trust Agreement to be performed by or on behalf of the Corporation, the District or any member, officer or employee thereof will be for the sole and exclusive benefit of the Trustee and the Owners.

Successor is Deemed Included in All References to Predecessor. Whenever in the Trust Agreement either the Corporation, the District or any member, officer or employee thereof is named or referred to, such reference is deemed to include the respective successor to the powers, duties and functions with respect to the administration, control and management of the Series 1994A Project that are presently vested in the Corporation, the District or such member, officer or employee, and all agreements and covenants required by the Trust Agreement to be performed by or on behalf of the Corporation, the District or any member, officer or employee thereof will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to make acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person

signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn before such notary public or other officer. The ownership of any Certificates and the amount, maturity, number and date of holding the same may be proved by the registration books relating to the Certificates at the Corporate Trust Office of the Trustee.

Any declaration, request or other instrument or writing of the Owner of any Certificate will bind all future Owners of such Certificate with respect to anything done or suffered to be done by the District in good faith and in accordance therewith.

Waiver of Personal Liability. No member, officer or employee of the District will be individually or personally liable for the payment of the interest or principal or prepayment premiums, if any, evidenced and represented by the Certificates by reason of their delivery, but nothing contained in the Trust Agreement will relieve any member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or by the Trust Agreement.

Destruction of Cancelled Certificates. Whenever provision is made for the return to the District of any Certificates which have been cancelled pursuant to the provisions of the Trust Agreement, Trustee will destroy such Certificates and furnish to the District a certificate of such destruction.

Funds. Any fund required in the Trust Agreement to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such accounts and funds will at all times be maintained in accordance with sound industry practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. The Trustee may establish such funds and accounts under the Trust Agreement as it deems necessary or appropriate to perform its obligations thereunder.

Article and Section Readings and References. The headings or titles of the several articles and sections of the Trust Agreement and the table of contents appended thereto are solely for convenience of reference and do not affect the meaning, construction or effect thereof. All references in the Trust Agreement to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses thereof; and the words "hereby," "herein," "hereof," "hereto," "herewith," "hereunder" and other words of similar import refer to the Trust Agreement as a whole and not to any particular article, section, subdivision or clause thereof.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Trust Agreement to be performed by or on the part of the District, the Corporation or the Trustee will be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof will be null and void and will be deemed separable from the remaining agreements and covenants or portions thereof and will in no way affect the validity of the Trust Agreement or of the Certificates, and the Owners will retain all the benefit, protection and security afforded to them under the Trust Agreement or any applicable provisions of law. The District, the Corporation and the Trustee declare that they would have executed and delivered the Trust Agreement and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof and would have authorized the delivery of the Certificates pursuant to the Trust Agreement irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Execution in Several Counterparts. The Trust Agreement may be executed in any number of counterparts and each of such counterparts will for all purposes be deemed to be an original; and all such counterparts, or as many of them as the District, the Corporation and the Trustee will preserve undestroyed, will together constitute but one and the same instrument.

Law Governing. The Trust Agreement is governed exclusively by the provisions of the Trust Agreement and by the laws of the State as the same from time to time exist.

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APPENDIX C

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2012A Certificates, payment of principal, premium, if any, accreted value, if any, and interest on the 2012A Certificates to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2012A Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2012A Certificates. The 2012A Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2012A Certificate will be issued for each annual maturity of the 2012A Certificates, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2012A Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012A Certificates on DTC's records. The ownership interest of each actual purchaser of each 2012A Certificates ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2012A Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in 2012A Certificates, except in the event that use of the book-entry system for the 2012A Certificates is discontinued.

To facilitate subsequent transfers, all 2012A Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2012A Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2012A Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012A Certificates are credited, which may or may not be the Beneficial Owners.

The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2012A Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2012A Certificates, such as prepayments, tenders, defaults, and proposed amendments to the 2012A Certificates documents. For example, Beneficial Owners of 2012A Certificates may wish to ascertain that the nominee holding the 2012A Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment notices shall be sent to DTC. If less than all of the 2012A Certificates within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2012A Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2012A Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, distributions, and dividend payments on the 2012A Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A 2012A Certificate Owner shall give notice to elect to have its 2012A Certificates purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2012A Certificate by causing the Direct Participant to transfer the Participant's interest in the 2012A Certificates, on DTC's records, to the Trustee. The requirement for physical delivery of 2012A Certificate in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2012A Certificate are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2012A Certificate to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2012A Certificates at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2012A Certificates will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2012A CERTIFICATES, WILL SEND ANY NOTICE OF PREPAYMENT OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE PREPAYMENT OF THE 2012A CERTIFICATES CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

On the date of execution and delivery of the 2012A Certificates, Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, proposes to issue its approving opinion in substantially the following form:

November __, 2012

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118

Re: $_____ Santa Clara Valley Water District,
Refunding and Improvement Certificates of Participation, Series 2012A

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the Santa Clara Valley Water District (the "District") in connection with the authorization, execution and delivery by the District of that certain Installment Purchase Agreement dated as of June 15, 1994, by and between the District and the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation"), as amended by Amendment No. 1 to the Installment Purchase Agreement, dated as of November 1, 2002 (collectively, the "1994 Installment Purchase Agreement"). We have also reviewed that certain Trust Agreement, dated as of November 1, 2012 (the "Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "Trustee"), the District and the Corporation, and such other information and documents as we consider necessary to render this opinion.

Pursuant to the Trust Agreement, the Trustee has agreed to execute and deliver certificates of participation hereinbefore described (the "Certificates") evidencing direct and proportionate interests of the registered owners of the Certificates in Series 2012A Installment Payments (as defined in the Trust Agreement) to be made by the District pursuant to the 1994 Installment Purchase Agreement.

In connection with our representation we have examined a certified copy of the proceedings relating to the Certificates. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings show lawful authority for the execution and delivery by the District of the Trust Agreement under the laws of the State of California now in force, and the Trust Agreement has been duly authorized, executed and delivered by the District. Assuming due authorization, execution and delivery by the Trustee and the Corporation, the Trust Agreement is, and the 1994 Installment Purchase Agreement is, a

valid and binding obligation of the District enforceable against the District in accordance with its respective terms.

2. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement.

3. The obligation of the District to make the Installment Payments from Flood Control System Revenues (as such terms are defined in the 1994 Installment Purchase Agreement) is an enforceable obligation of the District and does not constitute a debt of the District or of the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

4. Under existing statutes, regulations, rulings and judicial decisions, the portion of each Series 2012A Installment Payment constituting interest paid by the District and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, the portion of each Series 2012A Installment Payment constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect such corporation's alternative minimum tax liability of corporations.

5. The portion of each Series 2012A Installment Payment constituting interest is exempt from California personal income tax.

6. The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. Original issue discount that accrues for the Certificate owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations and is exempt from State of California personal income tax.

7. The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Certificate Owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Certificate owner realizing a taxable gain when a Certificate is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner.

The opinions expressed herein are based on an analysis of existing statutes, regulations, rulings and judicial decisions. Such opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur.

The opinion expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Certificates is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Series 2012A

Installment Payment constituting interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the Certificates.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement and the Tax Certificate executed by the District and other documents related to the Certificates may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of the portion of each Series 2012A Installment Payment constituting interest (and original issue discount) if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Trust Agreement, the 1994 Installment Purchase Agreement, the 1995 Installment Purchase Agreement and the Certificates are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and delivered by the Santa Clara Valley Water District (the "District") and U.S. Bank National Association, as dissemination agent (the "Dissemination Agent"), in connection with the execution and delivery of $_____ Refunding and Improvement Certificates of Participation, Series 2012A (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2012 (the "Trust Agreement"), by and among the District, the Santa Clara Valley Water District Public Facilities Corporation (the "Corporation") and U.S. Bank National Association, as trustee (the "Trustee"). The District covenants and agrees as follows:

1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule.

2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report. The term "Annual Report" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

Beneficial Owner. The term "Beneficial Owner" means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Certificates for federal income tax purposes.

Dissemination Agent. The term "Dissemination Agent" means, initially, U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

EMMA. The term "EMMA" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at http://emma.msrb.org/.

Fiscal Year. The term "Fiscal Year" means the one-year period ending on the last day of June of each year.

Holder. The term "Holder" means a registered owner of the Certificates.

Installment Purchase Agreement. "Installment Purchase Agreement" means the Installment Purchase Agreement dated as of June 15, 1994, by and between the District and the Corporation, as amended by Amendment No. 1 to the Installment Purchase Agreement, dated as of November 1, 2002.

Listed Events. The term "Listed Events" means any of the events listed in Sections 5(a) and (b) of this Disclosure Agreement.

Official Statement. The term "Official Statement" means the Official Statement dated November __, 2012 relating to the Certificates.

Participating Underwriter. The term "Participating Underwriter" means any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

Rule. The term "Rule" means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than each April 1, commencing April 1, 2013, provide to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The District's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The District will promptly notify EMMA, the Trustee and the Dissemination Agent of a change in the fiscal year dates.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to EMMA, the District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by fifteen (15) Business Days prior to such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the District and the Dissemination Agent to determine if the District is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA by the date required in subsection (a), the Dissemination Agent shall send a notice to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

(d) The Dissemination Agent shall file a report with the District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided to EMMA. The Dissemination Agent's duties under this clause (ii) shall exist only if the District provides the Annual Report to the Dissemination Agent for filing.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) the audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financing statements based on the then available trial balance format, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available;

(b) if not included in the Annual Report, the financial information and operating data with respect to the District, for the most recent fiscal year of the District then ended, described in the following tables under the caption entitled "THE DISTRICT" in the Official Statement:

(i) "Schedule of Long-Term Indebtedness;"

(ii) "Flood Control Benefit Assessment Rates and Minimum Flood Control Benefit Assessments Applicable to Defined Land Use Categories;"

(iii) "Benefit Assessment Billings and Collections;"

(iv) "Flood Control Benefit Assessment Revenue By Flood Control Zone;" and

(v) "Flood Control System Historical Operating Results Combined Statement of Revenues and Debt Service Coverage."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the District shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates in a timely manner not more than ten (10) Business Days after the event:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) substitution of credit or liquidity providers, or their failure to perform;

(v) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);

(vi) tender offers;

(vii) defeasances;

(viii) ratings changes; and

(ix) bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental

authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

(i) unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other events affecting the tax status of the Certificates;

(ii) modifications to the rights of Certificate holders;

(iii) optional, unscheduled or contingent Certificate prepayments;

(iv) release, substitution or sale of property securing repayment of the Certificates;

(v) non-payment related defaults;

(vi) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

(vii) appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the District shall provide to any person financial information and operating data regarding the District which is customarily prepared by the District and is publicly available.

7. Termination of Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The Dissemination Agent may resign at any time by providing at least 30 days' written notice to the District. The initial Dissemination Agent shall be U.S. Bank National Association.

9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, or another nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. The District will provide notice of such amendment to the Municipal Securities Rulemaking Board.

10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall not thereby have any obligation under this Disclosure Agreement to update such information or include it in any future notice of occurrence of a Listed Event.

11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Holders or Beneficial Owners of at least 50% aggregate principal amount of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

No Holder or Beneficial Owner of the Certificates may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article V of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates. No person shall have any right to commence any action against the Trustee, as Dissemination Agent, seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement. The Dissemination Agent and the Trustee shall not be responsible in any manner for the format or content of any notice or Annual Report prepared by the District pursuant to this Disclosure Agreement

12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

District:	Treasury/Debt Officer Santa Clara Valley Water District 5750 Almaden Expressway San Jose, California 95118-3686
Dissemination Agent:	U.S. Bank National Association One California Street, Suite 1000 San Francisco, California 94111

Trustee: U.S. Bank National Association
One California Street, Suite 1000
San Francisco, California 94111

14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Its: Acting Chief Executive Officer

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent and Trustee

By: _____
Its: Authorized Officer

APPENDIX F

ECONOMY OF SANTA CLARA COUNTY

General

Santa Clara County is one of nine counties that comprise the San Francisco Bay Area. It is located at the southern end of San Francisco Bay and is bounded by San Mateo and Alameda Counties to the north, San Benito County to the south, Santa Cruz County to the west, and Stanislaus and Merced Counties to the east. The County ranks second among Bay Area counties in land area, with 1,330 square miles. The District is coterminous with the County.

The City of San Jose is the County seat. The County comprises the San Jose Metropolitan Statistical Area.

The County's geography consists of a central valley, running northwest to southeast, flanked by ranges of hills to the east and west. The Santa Clara Valley extends from San Francisco Bay on the north to the San Benito County line. The surrounding hills and mountains provide a mild climate, with mean temperatures of 69 degrees in July and 50 degrees in January. Precipitation averages 14 inches per year.

Historically, Santa Clara County has ranked first among all nine Bay Area counties in:

Population
Construction
Retail sales
Total effective buying income
County employment
Manufacturing employment

Population

The 1950s saw an average annual increase of 8.5 percent in the County's population, as it grew at an average rate of more than 36,000 per year. Rapid growth continued between 1960 and 1970, with new residents averaging 40,000 per year. The County's growth rate has slowed, in both population increase and percentage increase, as it has changed from a rural region to a largely urban area. Growth rates since 1985 reflect a recent trend of slower but steady growth. Growth has been particularly strong in the electronics and Computer products industry, nurtured by the presence of Stanford University and other nearby institutions.

The following table presents recent population estimates for the County and the State of California:

Population Estimates
Santa Clara County and State of California
2001-2012

Year[(1)]	Santa Clara County	State of California
2001	1,690,366	34,256,789
2002	1,693,230	34,725,516
2003	1,693,752	35,163,609
2004	1,695,602	35,570,847
2005	1,698,234	35,869,173
2006	1,706,676	36,116,202
2007	1,725,066	36,399,676
2008	1,747,912	36,704,375
2009	1,767,204	36,966,713
2010	1,781,427	37,253,956
2011	1,797,375	37,427,946
2012	1,816,486	37,678,563

(1) January 1 data.
Source: *California State Department of Finance, Demographic Research Unit. March 2010 Benchmark.*

Employment

During the period from 2007 to 2011, jobs in San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (consisting of Santa Clara County and San Benito County) (the "MSA") decreased by 34,700 or 3.8% of total workforce. As of June, 2012, the unemployment rate in the MSA was 8.8%, compared to a rate of 7.8% in San Francisco County and 10.7% for California as a whole. The following table summarizes employment information for the MSA as of March 2011, the most recent date for such information.

San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area
(San Benito and Santa Clara Counties)
Annual Average Labor Force And Industry Employment
2007-2011

Title	*2007*	*2008*	*2009*	*2010*	*2011*
Civilian Labor Force	868,700	895,100	900,100	906,700	922,600
Civilian Employment	827,400	840,800	801,900	805,600	831,600
Civilian Unemployment	41,400	54,400	98,200	101,200	91,000
Civilian Unemployment Rate	4.8%	6.1%	10.9%	11.2%	9.9%
Farm	6,700	6,100	5,600	5,200	5,000
Natural Resources & Mining	300	300	200	200	200
Construction	47,200	44,200	34,400	32,200	31,400
Manufacturing	166,700	168,000	155,800	153,500	158,200
Trade, Transportation & Utilities	139,700	137,600	126,400	125,800	127,800
Information	39,600	42,300	41,600	43,900	49,000
Financial Activities	36,900	34,300	31,500	31,000	31,700
Professional & Business Services	178,300	178,900	161,400	162,000	169,500
Education & Health Services	103,500	108,200	109,300	112,700	117,400
Leisure & Hospitality	76,800	78,100	74,900	74,900	76,200
Other Services	25,100	25,400	24,500	24,300	24,400
Government	97,200	97,800	96,500	94,500	92,400
Total All Industries	918,000	921,200	862,100	860,200	883,200

March 2011 Benchmark.
Source: State of California, Employment Development Department.

Industry

The County ranks second in California and fifth in the nation in manufacturing as measured by the value of shipments. The high technology boom has spawned the term "Silicon Valley," by which this area is known worldwide. The silicon-based semiconductor industry, however, is only a part of the industrial picture with rapid increases occurring in information systems, personal computers, peripherals, instruments and a wide array of defense-oriented electronics.

Major Employers

The tables below lists the major private-sector and public-sector employers in Santa Clara County, as ranked by number of employees, for the calendar year 2011.

Santa Clara County
Principal Employers
2011

Name	Type of Business	Number of Employees
County of Santa Clara	Government	15,474
Cisco Technology Inc.	Computer network equipment manufacturer	13,000
Stanford University	Higher education, hospital, medical research	10,101
Apple Computer, Inc.	Technology	10,000
Kaiser Permanente	Medical Services	8,343
Lockheed Martin	Aerospace systems	7,600
City of San Jose	Government	5,840
Stanford Hospital & Clinics	Medical Services	5,569
Intel Corporation	Microprocessors manufacturer	5,000
Hewlett-Packard Co.	Technology solutions provider	5,000
Applied Materials Inc.	Semiconductor equipment manufacturer	3,746
SGI/Silicon Graphics Inc.	Technical Computing	2,600

Source: County of Santa Clara *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2011.*

Retail Trade

The following table shows taxable sales in both the County and the City of San Jose from 2007 through 2010 and for the first quarter of 2011.

Santa Clara County and City of San Jose
Total Taxable Sales
(in thousands)

Year	*City of San Jose*	*Santa Clara County*
2007	$12,775,964	$33,663,448
2008	12,403,677	32,274,306
2009	10,425,287	27,427,709
2010	11,501,623	30,523,322
2011[(1)]	3,100,287	8,446,366

(1) Through Second Quarter 2011.
Source: California State Board of Equalization.

Construction Activity

Provided below are the building permits and valuations for the County for calendar years 2007 through 2011.

Building Permits and Valuations
Santa Clara County
2007-2011
(Dollars in Thousands)

	2007	2008	2009	2010	2011
Residential	$1,359,207	$1,051,110	$578,690	$1,076,362	$1,005,884
Non-Residential	1,989,336	1,915,010	1,187,776	1,137,316	1,498,752
TOTAL	$3,348,543	$2,966,120	$1,766,466	$2,213,678	$2,504,637
New Dwelling Units					
Single Family	1,964	1,259	667	815	978
Multiple Family	2,577	2,417	450	3,617	2,234
TOTAL	4,451	3,676	1,117	4,432	3,212

Note: Columns may not add to totals due to rounding.
Source: Construction Industry Research Board.

Income

The following tables show the personal income and per capita personal income for the County, State of California and United States from 2007-2011.

Personal Income
Santa Clara County
2007-2011
(Dollars in Thousands)

Year	County of Santa Clara	California	United States
2007	$103,501,849	$1,566,400,134	$11,900,562,000
2008	104,331,553	1,610,697,843	12,380,225,000
2009	96,315,176	1,526,531,367	12,168,161,000
2010	103,636,350	1,587,403,857	12,353,577,000
2011	N/A	1,648,900,000	13,018,274,000

Note: Dollars in Thousands.
Source: *U.S. Department of Commerce, Bureau of Economic Analysis.*

Per Capita Personal Income
Santa Clara County
2007-2011

Year	County of Santa Clara	California	United States
2007	$60,456	$43,240	$39,461
2008	59,927	43,853	40,674
2009	54,565	42,395	39,635
2010	58,018	42,514	39,937
2011	N/A	44,481	41,663

(1) Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).

Source: *U.S. Department of Commerce, Bureau of Economic Analysis.*

Education

San Jose State University. San Jose University was founded in 1857 and is the oldest institution in the California State University System. It is located on 150 acres close to downtown San Jose.

The university is a major employer in the County, with a faculty of 1,600 and a total staff of approximately 2,900. Student enrollment currently totals about 26,796 undergraduate and 7,009 graduate students. With a total of 33,805 students, it ranks fifth in enrollment among the 23 campuses of the state university system.

Stanford University. Stanford University is located in the City of Palo Alto and was established in 1885 by Senator and Mrs. Leland Stanford as a memorial to their son, Leland Jr. The university is one of the County's largest landowners. The original grant decrees that the land then totaling 8,847 acres shall never be sold. About 670 acres have been condemned by governmental bodies for public uses such as highways, schools, and hospitals. A major regional shopping center and industrial park are located on land owned by the university.

Student enrollment currently totals about 15,319, consisting of about 6,878 undergraduate and 8,441 graduate students. This high proportion of graduate students is consistent with the university emphasis. In a nationwide survey of graduate and professional school deans, the American Council of Education ranked the university's schools and programs in law, medicine, business education and engineering among the top ten.

Santa Clara University. Santa Clara University was founded in 1851 on the site of the Mission Santa Clara de Asis, and was California's first college. It became a university in 1912. It is located on 100 acres in the City of Santa Clara. The Santa Clara mission remains the center of the university and serves the campus community as a parish church.

Current enrollment totals 5,107 undergraduate and approximately 3,724 graduate students. Graduate schools include engineering, business, law, education, and arts and sciences. The university has a faculty of 560 and additional staff of 600, for a total employment of 1,160.

Primary and Secondary Education. The County has approximately 228 public elementary schools, 56 public middle schools, and public 41 high schools, with total enrollment of approximately 253,065. Three community college districts operate seven campuses in the County.

Community Facilities

Transportation. U.S. Highway 101 and Interstate Highway 280 serve Santa Clara County from the north, providing a link with San Francisco. Interstate 680 and Interstate 880 connect the County with the East Bay. All four of these principal highways intersect in downtown San Jose, forming a freeway grid serving the entire County.

San Jose International Airport is one of three major commercial airports in the San Francisco Bay Area. It serves the Southern California/Bay Area air corridor as well as connecting Santa Clara County with major nationwide. Over ten million passengers use the terminal annually.

Two major railroads, the highway system, and the airport have contributed to the industrial, commercial, and residential expansion of Santa Clara County. Southern Pacific, Union Pacific, and CalTrain provide main line rail service to the area. Daily commuter service is provided north to San Francisco.

Culture and Recreation. The San Jose Center for the Performing Arts seats 2,700 people. Flint Center, located on the campus of DeAnza College at Cupertino, seats 2,500 people. Both host concerts by leading orchestras. San Jose Convention Canter, located near the Performing Arts Center in the downtown area, seats a total of 7,600.

The San Jose Symphony traces its roots back over a century. The San Jose Civic Light Opera stages productions at the Performing Arts Center. Among the many museums in the County are the Egyptian Museum, the Hoover Institution of War and Peace, and the San Jose Museum of Art.

County facilities include the Villa Montalvo Arboretum in Saratoga, Palo Yacht Harbor, Alviso Marina, the Santa Clara County Fairgrounds in San Jose, and two state and eight regional parks. Other attractions in Santa Clara County include the Winchester Mystery House and Planetarium in San Jose, and the 65-acre Great America, a family amusement center, in Santa Clara. Administrative offices and practice fields for the San Francisco Forty-Niners National Football League team, as well as the San Jose Arena, home of the San Jose Sharks National Hockey League team, are located in the County.

Utilities. Electric and gas service throughout the County is provided by Pacific Gas & Electric Company. Pacific Bell Provides telephone service to most of the County. Verizon and Western California Telephone Company serve communities in the southwestern part of the County.

Agriculture. Despite increasing urbanization, agriculture remains an important contributor to the County's economy. In 2010, the value of agricultural production totaled $266,141,100, a 2% increase from 2009. Nursery products, vegetable crops, and livestock and poultry posted increases, while a decline in cherry crop production pulled down output in the fruits and nuts sector.

Roughly 52.8% of agricultural production consists of vegetable crops, 37.2% is comprised of nursery crops, which the remainder including fruit, nut, and berry crops, livestock, and field crops. The following table summarizes the County's agricultural activity from 2006 through 2010.

Agricultural Production
Santa Clara County
2006-2010

	2006	*2007*	*2008*	*2009*	*2010*
Fruit, Nut & Berry Crops	$ 17,701,400	$ 17,066,300	$ 18,043,100	$ 21,911,600	$ 16,703,000
Vegetable Crops	117,854,800	130,361,000	123,043,800	130,773,900	140,456,000
Livestock & Poultry	8,049,900	8,415,600	6,679,400	6,125,400	6,400,600
Field Crops	3,383,300	3,995,500	4,404,100	4,140,100	3,640,200
Nursery Stock, Cut Flowers, Seed & Forest Products	96,546,980	94,781,600	95,780,000	97,766,300	98,941,300

Source: County of Santa Clara Agricultural Department.


Santa Clara Valley
Water District